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Submission on the Climate Change Response (Moderated Emissions Trading) Amendment Bill

Clerk of the Committee
Finance and Expenditure Select Committee
Select Committee Office
Parliament Buildings
WELLINGTON

On behalf of the New Zealand Geothermal Association

13 October 2009

Introduction

The New Zealand Geothermal Association (NZGA) has argued that correct price signals need to be sent through the energy markets to enable the most appropriate energy response, including appropriate uptake of renewable energy forms including geothermal options. As such the NZGA is concerned about delays and changes now proposed through the Climate Change Response (Moderated Emissions Trading) Amendment Bill, and that price signals are being deliberately suppressed.

The New Zealand Geothermal Association (NZGA) is an independent, non-profit association that provides information on geothermal phenomena and utilisation for industry, government and educational organisations. In addition, the NZGA, as a member of the International Geothermal Association, contributes to the international exchange of information within the geothermal development industry. NZGA membership comprises participants, regulators, and interested parties within the geothermal community. It totals 266 members currently.

The Changes

The NZGA notes that the Amendment Bill amends over 60 aspects of the original Climate Change Response Act 2002. Many of these changes are of the nature of administrative improvements, and we do not wish to be drawn into such detail.

Our focus of interest is the six month delay in covering stationary energy and industrial processes to 1st July 2010, and the 50% (rather than 100%) obligation from 1st July 2010 – 1st January 2013 with associated transition measures.

A Review of Basic Principles

The justification for any government market intervention is that markets have failed. In this case, the argument is that energy markets have failed to take on the true cost of carbon so have developed in inappropriate ways. Carbon needs to be valued in the market, and an emissions trading scheme has been selected as the mechanism to do so by both Labour and National Governments.

In this context it appears erroneous to deliberately initiate an interference in a market in a manner designed to cause the interference to fail. If the intent of an emissions trading scheme is to bring the price of carbon into the energy market, then an amendment to protect the market from this full price undermines the whole reason for the legislation.

The NZGA also echoes the same concerns of other energy associations:

- **A strong carbon price signal** - NZGA is concerned that the amendments do not provide the strong carbon price signal that is needed to encourage investment in new renewable generation and heat plant generally.
- **Certainty needed for investment** – NZGA is also concerned that the amendments do not provide the certainty that we believe is needed to encourage investment in new renewable energy options. There appears to be little, if any, bi-partisan agreement, which compounds the uncertainty.
- **A consistent regulatory approach** – NZGA is further concerned that the amendments proposed appear to be somewhat out of step with the current review of the electricity market undertaken on behalf of the Minister of Energy. This review seeks to ensure that all market participants are exposed to the full risk, and cost, of their market position.

Transition Measures

We understand that Government rightly wants to protect certain industries going through transition, and segments of society that may be severely impacted by cost increases. We argue that Government should introduce direct but alternative means to achieve these good ends. However, to the fullest extent possible, the carbon market should be left to work as effectively as possible.

Our overall economic prosperity will depend on the development of appropriate infrastructure. Amongst the assets to be developed include our electricity generation and heat supply assets, along with transportation assets. Decisions related to these involve high capital cost, for which some level of ongoing cost certainty is required. We recognise that part of the motivation for halving the impact of a cost of carbon is to reduce impacts of carbon price volatility. However if a goal is reducing uncertainty associated with the price of carbon, then it may be more appropriate for the government to offer carbon hedge products into the market until prices stabilise or similar commercial offerings develop. For now, greater confidence can come from a consistency of policy in this area.

The New Zealand Geothermal Association does not need to be heard in support of this submission.

Yours faithfully



Brian White
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New Zealand Geothermal Association