



11 August 2023

NZ ETS review
Ministry for the Environment
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By email: etsconsultation@mfe.govt.nz

Consultation on the Review of the New Zealand Emissions Trading Scheme

Consultation on A Redesigned NZ ETS Permanent Forest Category

1. Orion New Zealand Limited (**Orion**) welcomes the opportunity to make submissions on both of these discussion documents.
2. We own and operate the electricity distribution infrastructure in Central Canterbury, including Ōtautahi Christchurch. Our network is both rural and urban and extends over 8,000 square kilometres from the Waimakariri River in the north to the Rakaia River in the south; from the Canterbury coast to Arthur's Pass. We deliver electricity to more than 220,000 homes and businesses and are New Zealand's third largest Electricity Distribution Business (EDB).
3. Orion has a fully owned subsidiary, industry service provider Connetics, and together with Orion the two organisations make up the Orion Group.
4. Central Canterbury is a place of rapid growth and transformation, embracing change and innovation, with Ōtautahi Christchurch at the heart of this diverse and vibrant region. Electricity distribution has always been an essential service that underpins regional, community and economic wellbeing. Our service is vital to the wellbeing and livelihood of the people and businesses who live and operate here.
5. At Orion, our purpose is powering a cleaner and brighter future with our community. We want to drive prosperity for our region through balancing energy affordability, energy security and sustainability. We have five focus areas for achieving our purpose, including
 - facilitating decarbonisation and hosting capacity at lowest cost while giving our customers choice on how they access our network, and
 - being a force for good in the community we serve, enabling the net zero transition.

6. Standing still in a changing world is not an option for us. We welcome the chance to innovate and seek out ways to support Central Canterbury's rapid growth, deliver on our commitment to confronting the climate emergency and respond to our customers' increasing desire for control over their energy choices.

Background

7. Orion is a mandatory participant in the New Zealand Emissions Trading Scheme (NZ ETS) in relation to our operation of electrical switchgear that uses sulphur hexafluoride over the prescribed threshold.
8. Orion Group is working to reduce its group operational emissions (excluding distribution losses) by 50% from 2020 levels (approximately 1630tCO₂e) by 2030, and by 80% by 2050. We are also offsetting remaining group emissions excluding distribution losses, with effect from June 2022. This meant the group was 'carbon neutral' in relation to its operational emissions for financial year 2022 and will continue to offset its emissions in a similar manner as we progress towards 2050.
9. To offset its emissions, Orion is pursuing a short and long-term approach. In the short term, international Verified Emissions Reduction units (VERs) are being used to offset the period from 2022 to approximately 2030. At the same time, Orion is establishing native forestry to the value of \$3.5 million in its network region, which will have reached sufficient maturity by around 2030 to sequester carbon units at least equivalent to Orion's operational emissions and potentially more.
10. To date the Orion Group has partnered with 2 landowners in our network area to recloak the whenua with indigenous forest species for the purpose of carbon offsetting. One is with a 20-hectare family trust in Purau Bay and the other is a 460-hectare farm on Banks Peninsula owned by the Wairewa Rūnunga – known as Te Kaio.
11. In the long term, to allow for the risk of catastrophic events, or Orion not being successful in reducing its operational emissions, Orion has also purchased NZUs to the value of \$1 million. These NZUs provide cover for our carbon neutrality claims in the period 2030 to 2050, or if such cover isn't required then these NZUs can be sold in the future, generating sufficient income forecast to cover the cost of the native forest establishment.¹
12. With that background in mind, we set out our submissions on the Review of the New Zealand Emissions Trading Scheme first before turning to the consultation on A Redesigned NZ ETS Permanent Forest

¹ The New Zealand Emission Units provide a hedge during the sequestration period against our carbon reduction targets not being met or sequestration through native forests being less than anticipated, through say fire or pest.

Category. Note that we are not addressing all questions raised in the Discussion Documents.

Review of the New Zealand Emissions Trading Scheme

Q3.1 Do you agree with the case for driving gross emissions reductions through the NZ ETS? Why/why not? In your answer, please provide information on the costs of emissions reductions.

13. Yes, we agree with the case for driving gross emissions reductions through the NZ ETS. As the Discussion Document notes, the Government is currently using a portfolio approach to drive emissions reductions and removals. We agree with this portfolio approach. The NZ ETS is an important tool in this portfolio, and more can be done with this tool than is currently the case.
14. The IPCC has made it clear that all global modelled pathways that limit warming to 1.5°C with no or limited overshoot, and those that limit warming to 2°C, involve **rapid and deep and, in most cases, immediate greenhouse gas emissions reductions in all sectors this decade.**

Q3.3 How important do you think it is that we maintain incentives for removals? Why?

15. Our submission is that it is very important to maintain incentives for removals. Even though forestry may be a low cost form of abatement, significant investment has been made in forestry and significant investment is planned for forestry (such as our own example). Therefore, consideration must be given to current investments and investors, as well as future investment plans. It is also important to consider that even if significant emission reductions are made, there will inevitably be a residual amount of emissions between present time and 2050, and after 2050.

Q5.1 Do you agree with the Government's primary objective for the NZ ETS review to consider whether to prioritise gross emissions reductions in the NZ ETS, while maintaining support for removals? Why/why not?

16. We agree with this primary objective.
17. However, the Government must be clear about the choices it makes for how far it will go in reducing gross emissions versus using removals from forests to meet the 2050 net zero target.²
18. As the Climate Change Commission have noted,

² See the Climate Change Commission's 2023 Draft advice to inform the strategic direction of the Government's second emissions reduction plan, p50.

The ambiguity over the intended level of gross emissions reductions that the Government is pursuing in the second and third budgets creates risks for the transition. Without a clear signal from Government, it is difficult for businesses to know whether investments they could make are consistent with the path for gross emissions the Government intends to follow. Low emissions investments which rely on an emissions price to be economic may not proceed if businesses are unsure about the degree to which removals can be substituted for gross emissions reductions.³

Q6.1 Which option do you believe aligns the best with the primary objectives to prioritise gross emissions reductions while maintaining support for removals outlined in chapter 5?

19. We have considered the options in light of our limited participation in the NZ ETS because of our mandatory obligations.
20. However, our main interest lies in what will happen with the voluntary carbon market (VCM). We acknowledge that the Government is not considering the VCM as part of this consultation but is separately developing a policy framework for a domestic VCM in which businesses and organisations can purchase credits to offset hard-to-abate emissions targets and meet their climate targets.
21. Whatever changes are made to the NZ ETS, we are keen to see that it maintains flexibility in order that NZUs may be traded in a VCM and can then be cancelled so that they are permanently taken out of circulation. In this respect, cancelling an NZU must be unrelated to mandatory obligations under the NZ ETS.
22. With those comments in mind, Option 4 best aligns with the primary objectives to prioritise gross emissions reductions while maintaining support for removals outlined in chapter 5.

Q6.3 Of the four options proposed, which one do you prefer? Why?

23. We prefer option 4 because it allows for greater flexibility with removal units even though it separates reductions and removals. As the Discussion Document notes removal units that provide additional biodiversity, environmental, social or cultural co-benefits could be incentivised under this option. Option 4 will also potentially drive emission reductions because it will limit the number of units participants can use for their surrender obligations and therefore drive up the NZU price.
24. However, our support for this option is predicated on the basis that the removal units can participate in

³ Above n2.

a VCM. We note that one idea for this option is that the government could allow voluntary participation in this new market, for example, by companies seeking to buy removals, to support a contribution claim towards Aotearoa NDC. Organisations that are not mandatory ETS participants should also be allowed to purchase these units, transfer them to a cancellation account, and therefore offset their emissions.

Q7.1 Should the incentives in the NZ ETS be changed to prioritise removals with environmental co-benefits such as indigenous afforestation? Why? Why not?

25. Our position is that the incentives in the NZ ETS should be changed to prioritise removals with environmental co-benefits such as indigenous afforestation. Whilst indigenous forests remove carbon at a slower rate than exotic forests they can continue to sequester carbon for hundreds of years. Indigenous forests present the opportunity to provide long term carbon sinks, and foster a diverse range of flora and fauna, enhance water quality and soil conservation, and address erosion. This has potential to improve social and environmental outcomes.

Other

26. Whatever the outcome of the review, the Government must provide a clear and certain pathway for any changes to the scheme.

Consultation on A Redesigned NZ ETS Permanent Forest Category

Q2 Do you agree with our assessment criteria for the redesigned permanent forest category? If not, what would you change and why?

27. We support the five criteria listed.

Q3 Do you think any of these criteria are more important than the others? If so which criteria and why?

28. We do not have a preference as to which criteria are more important, as all of these are important assessment criteria.

Q6 Do you think there is an opportunity to use permanent forests to stabilise erosion-prone land?

29. Yes. We acknowledge the difficulties associated with this lower productivity land. However, using this type of land as permanent forestry under the ETS will in the long term provide a number of benefits.

Q11 Of these options, what is your preferred approach? Why? Are there other options you prefer, that we haven't considered?

30. We agree that permanent forests must be managed properly to minimise future risks such as wildfire, pests and disease and wind-related risk, and to protect these enduring carbon sinks. Although we think this is a matter of good forestry management, we can see the benefits in introducing some minimum requirements to provide for this.

31. To be fair and consistent, these requirements should apply to all forests in this category. That said, we think there could be some scope for exemptions of smaller land parcels to still encourage permanent forestry but not make the costs prohibitive. On this basis, we support option 3.2.

Q16 What are your views on forest management plans?

32. We think they are an important part of good forest management.

Q17 What should forest management plans include?

33. We agree with the matters outlined on page 29 of the Discussion Document (although as above we think these are matters of good forest management), such as

- Identify risks posed to the forest and include an appropriate monitoring regime to ensure risk management remains effective through time
- Include mitigations for risks posed to the forest
- Stipulate best practice forest management that is appropriate for the forest model
- Outline timeframes for specific management interventions
- Consider the proximity to natural seed sources to support forest regeneration (this could support indigenous forests to establish successfully).

34. The risks should specifically include any interference with electricity transmission and distribution infrastructure.⁴

35. We also think that forest management plans must be informed by mātauranga Māori. This is a key

⁴ See the Electricity (Hazards from Trees) Regulations 2003 which are currently being reviewed by MBIE.

aspect of our approach with the relogging of Te Kaio farm.

Q18 Who do you think should be allowed to verify and/or monitor forest management plans?

36. It will depend on the approach the Government adopts to forest management plans as to who are appropriate persons to verify and monitor the implementation of forest management plans. However, we do think that verifiers/monitors will need to have some background in mātauranga Māori and biodiversity.

Conclusion

37. Thank you for the opportunity to make a submission on this matter.

38. Please let us know if you have any questions about our submission. The contact person for this submission is Vivienne Wilson, Policy Lead, vivienne.wilson@oriongroup.co.nz

Yours sincerely

Pip Newland
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