

October 2022

Ministry for the Environment  
Environment House  
23 Kate Sheppard Place  
Thorndon  
Wellington 6011

**Re: Feedback on Proposed Changes to New Zealand Emissions Trading Scheme – Limit and Price Control Settings for Units 2022**

Submitted via Email – [etsconsultation@mfe.govt.nz](mailto:etsconsultation@mfe.govt.nz)

**Acknowledgement**

Thank you for the opportunity to make a submission on the Proposed changes to New Zealand Emissions Trading Scheme limit and price control settings for units 2022.

The New Zealand Green Building Council supports the proposed increases to the auction price controls, and the steps to limit hoarding of credits. These price limits should be sufficiently high to allow the carbon price to be set by market factors, rather than repeatedly bumping up against the cost containment reserve.

It is important that extra revenue resulting from these changes is recycled into decarbonisation through the Climate Emergency Response Fund and that attention is also paid to easing costs for low-income households, which will be impacted significantly by the increase to carbon costs.

**New Zealand Green Building Council**

We have more than 700+ companies and organisations amongst our members, including banks, energy companies, insurers, government departments, publicly listed property companies, project managers, manufacturers, construction companies, architects, developers, designers, and tertiary education institutions. This includes many of the NZX50. These members have a combined market turnover of \$40bn. We also work with local government members, representing over 60% of Aotearoa's population.

**Proposed Changes to New Zealand Emissions Trading Scheme – Limit and Price Control Settings for Units 2022**

**Higher carbon price needed to drive decarbonisation**

Current ETS auction price limits are preventing the price of carbon from reaching the levels needed to deliver the required level of emission reductions. The \$70 Cost Containment Reserve has been

breached in recent auctions, requiring the government to create additional credits that will need to somehow offset, with the clearing price in the September auction hitting \$85.40.

This is unsustainable. Price limits are supposed to be there to prevent one-off shocks from having too much effect on the market. Instead, the price cap is being continually tested due to market fundamentals - demand is simply well in excess of auctioned supply at current prices.

While we understand the logic of setting low price caps during the introduction of the new ETS auction system to ease the transition, the Government cannot continue to create more credits to keep the carbon price down near an artificially low-price cap. Instead, it needs to move the auction price controls to levels that will allow market forces to find equilibrium at realistic prices.

The consultation document indicates that, at the auction price ranges proposed, the actual cost of reducing net emissions (specifically, by converting farmland to forestry) will set the price of carbon. This is a better outcome.

### Extra ETS revenue should target building emissions reductions

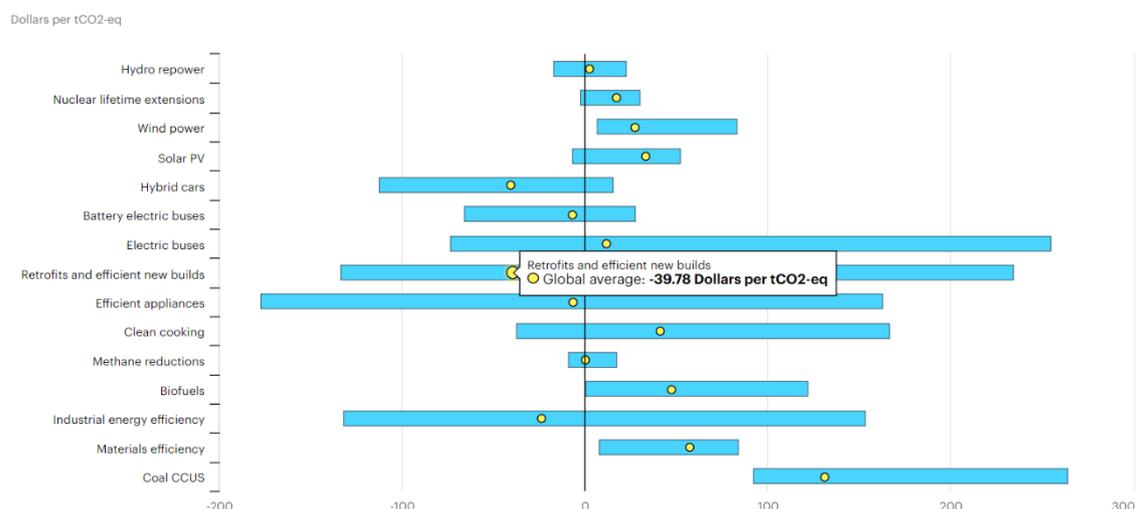
Although fewer credits will be auctions, substantial extra revenue would be generated by the higher ETS auction prices proposed. Although not modelled in the consultation document, it is likely to be on the order of hundreds of millions of dollars a year. This revenue should be, at least partially, used to help reduce emissions from buildings. The built environment equates to 20% of New Zealand’s carbon emissions. Reasons for prioritising emissions/energy efficiency of buildings are:

- negative lifetime costs,
- creating supply capacity to meet the rising demand for electricity from transport
- achieving the gross emission reductions that the government wants
- that there are strong co benefits such as improved health and employment outcomes
- that it is an effective way to help ensure a just transition and reduce the cost of living for kiwi whanau

### Building emissions/energy efficiency leads to net savings

There is a wealth of evidence that building energy efficiency represents one of the best options for reducing carbon emissions, with net cost savings. For example, [IEA analysis](#) shows energy efficiency retrofits are among the most cost-efficient options for reducing emissions.

GHG abatement costs for selected measures of the Sustainable Recovery Plan



Investment capital is a barrier to realising these economic and environmental benefits, homeowners and commercial building owners often cannot afford the upfront cost of energy efficiency investments. This can be overcome through government investment through subsidy and grant schemes, such as Warmer Kiwi Homes.

#### Electricity demand/decarbonisation interface

Demand for electricity is set to grow rapidly in the coming years from the transport sector – already, EV uptake following the introduction of the Clean Car policies is exceeding expectations. There is a significant risk that increased demand for electricity from the transport system will prevent retirement of fossil fuel power stations, making it harder to reach emissions reduction targets.

Building energy efficiency can come to the rescue here. New Zealand buildings are notoriously poorly insulated and energy inefficient. Investment to improve building energy efficiency can free up significant amounts of electricity for transport to use without impeding the decarbonisation of electricity production.

#### Net vs gross emissions reductions

The consultation paper notes the government's concerns that the lower cost of sequestration of carbon through afforestation compared to the cost of many gross emissions reduction options will see the economy reduce its net emissions through large-scale afforestation, rather than through cutting gross emissions. NZGBC believes we must take all options to reduce carbon in the atmosphere, and notes that wood is a sustainable, carbon-neutral (or carbon negative, depending on accounting) building material.

However, if the government wants to promote low-cost gross emissions reductions, then building energy efficiency is a stand-out option, with negative lifetime costs. Once again, this suggests that the government should prioritise building energy efficiency in its use of ETS revenues.

#### Government will need to be mindful of equity implications

The consultation document estimates that a \$200/tonne carbon price would mean the ETS adds 7.6c/kWh (25%) to the price of residential electricity, 4.6c/kWh (31%) to the price of fossil gas, and 53.8c/l (24%) to the price of petrol.

This would raise the cost of the ETS to the average family to over \$1,000 a year, including over \$500 a year more on electricity, based on Household Expenditure Survey data. Energy tends to make up a larger percentage of household costs for lower income households, so the impact will also be disproportionate for these households.

It should be a priority for CERF funding to help low-income families decarbonise and reduce their energy costs.

According to the Household Economic Survey, household energy (that is, energy used within the home, and not including private transport) accounts for around 5% of the living expenses of low-income households. The homes of low-income families are often energy inefficient – with poor insulation and power-hungry heating, lighting, and water-heating installed.

A focus on helping low-income households reduce their energy consumption, would ease both their emissions and their power bills.

The Warmer Kiwi Homes programme, which is now funded through the CERF, should be carried on and expanded to cover both more households and a greater range of energy efficiency improvements.

We are also calling on the Government to use CERF funds towards a programme to deep retrofit 200,000 homes, substantially lowering energy use, which many other developed countries are already using.

Example of initiatives on retrofit initiatives in other countries:

- Germany is spending \$16bn per year on retrofitting buildings and homes. This equates to over \$1.5bn per year if it was in New Zealand
- Ireland is funding deep retrofitting 500,000 homes
- Italy is providing 110% subsidy for deep retrofit

### **Lower embodied carbon**

It is also worth noting that embodied carbon is around 8% of New Zealand's carbon emissions. Some products such as concrete have a pathway to decarbonise. Others such as the NZ steel industry may need significant financial support to decarbonise their processes. This will help to decarbonise a major component of the construction and infrastructure sector's emissions.

I hope this has been of use. Do let us know if any further information would assist.

Nga mihi nui,



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