

**EFNZ Conference on Climate Change Projects
Tuesday 19 August 2003
Lambton Rooms, Hotel Intercontinental, Wellington**

Conference Summary

Introduction

As we move toward 2008, the government is beginning to implement key new policies to address climate change under the Kyoto Protocol (1997). These policies aim to bring a more sustainable energy future to New Zealand, and encourage greenhouse gas reductions before the introduction of an emissions charge in 2007.

This conference focussed on one of the government's key climate change policies – the Project mechanism. In the coming months the tender round for Project proposals will be opened. Each project will be assessed for their eligibility, with priority given to those larger projects that contribute to the electricity sector. The tender and evaluation process, assessment and eligibility criteria, and the technical and legal issues to be considered when putting together a Project proposal were all discussed during the conference.

Representatives from a range of sectors were involved including government, legal, energy, transport and agriculture, with speakers from the NZ Climate Change Office, NIWA, Simpson Grierson, Chapman Tripp, CRL Energy Ltd, Landcare Research, Motu: Economic and Public Policy Research, Meridian Energy and Trustpower. Keynote speaker were Hon. Pete Hodgson (Minister of Energy) and Neil Cohn from the large international institutional energy and environmental brokering company, Natsource LLC (USA).

The Government Climate Change Project Mechanism

The Minister of Energy (Hon. Pete Hodgson) stated that the overall goal for climate change policy is to have made significant greenhouse gas reductions on business-as-usual and move towards a permanent downwards path for total gross emissions by 2012. To achieve this, government has adopted a policy that will target the demand for, and supply of, energy to achieve a lower carbon economy (Martin Harvey, New Zealand Climate Change Office).

The Project mechanism will award emission units to projects that will reduce greenhouse gas emissions below business-as-usual (Bruce McLean, New Zealand Climate Change Office). The emission units are then tradeable on the international carbon market. The mechanism aims to encourage innovative initiatives that reduce emissions and have a direct benefit for the environment. Project proposals undergo rigorous assessment of eligibility, investment and environmental additionality as well as risk assessment and comparison to other projects in the tender process.

Although the aim of the mechanism is to encourage innovative and new technologies, Suzie Kerr (Motu: Economic and Public Policy Research) suggested that it might not work in this way. Due to the costs involved in creating these innovative technologies, the Project mechanism may encourage companies to adapt existing technologies rather than create new ones.

Already the international carbon market is being utilised. Neil Cohn (Natsource LLC) believes New Zealand is in a unique situation to compete on the international market. New Zealand's allocation of Assigned Amount Units (AAU's) is likely to be greater than it needs. Many markets are already trading, for example Japan, Canada, and Europe in which there are very few sellers. New Zealand needs to maximise the value of its greenhouse gas emission units and use this time to learn more about how the international carbon trading market works.

Technical/Legal/Economic/Financial Issues

Determining how effective a project will be under the Projects mechanism can be difficult. John Kessels (CRL) and Wayne Hennessey (CRL) discussed the development of Project guidelines to estimate emission reductions. These guidelines aim to help companies determine key aspects of a project in relation to the evaluation criteria. Defining project boundaries, setting baselines and determining project lifetimes as well as additionality, emission factors and variability are all considered. The issue of defining a project boundary was raised throughout the day and may still require further discussion.

Elisabeth Welson (Simpson Grierson) and Vernon Rive (Chapman Tripp) provided the legal perspective on the Project mechanism. Their presentations showed that this mechanism provides a potential business opportunity although not without risk. The viability of a project may depend on how that risk is managed and these risks should be considered before going into legal, financial or contractual agreements. In addition, amendments to the Resource Management Act (1991) may have a further impact on a project and should be considered.

Energy Sector (Peter Calderwood, Trustpower and Tracy Dyson, Meridian Energy)

In the early stages of the government's climate change policy the experiences of Trustpower and Meridian Energy have provided an opportunity for the industry to gain useful insight into the way the Project mechanism may work. It has helped identify some of the issues that should be considered when developing a Project proposal. In their experience, the Project mechanism will work for projects that are near-viable and all potential risks need to be considered throughout the projects planning.

Transport Sector (Gavin Fisher, NIWA)

There are also opportunities for other sectors to benefit from the Project mechanism as well

as many challenges. Most air pollution is caused by transport and is largely aligned by population. The challenge is getting the individual to contribute to reducing greenhouse gas emissions. The introduction of a carbon charge may not be a large enough incentive for the general population to change to cleaner fuels or improve transport efficiency.

Agriculture (Ian Turney, Landcare Research)

One of the other climate change policies the government will be adopting is Carbon Sequestration. This policy can help obtain climate change policy objectives through the removal of carbon from the atmosphere through non-harvest forest sinks, with particular conservation value placed on exotic and long-term indigenous species.

Conclusion

The conference provided a good opportunity for variety of organisations and companies to express their views and raise issues about the government's Climate Change Project mechanism. Representatives from all sectors attended and helped provide a broad view of the issues still to be resolved and the challenges that lie ahead. One of the underlying themes from the day is that the Project mechanism process is still very new and should be viewed as an opportunity for learning.

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