

Conference notes by Robbie Morrison <morrison@iet.tu-berlin.de>.

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Introduction

This page attempts to draw together salient points from the conference, with a focus on issues that arose during questioning and discussion. The electronic presentations are available for [download](#) — hence this material is not repeated here unless specifically relevant.

The term "Project" with an upper-case "P" indicates an initiative under the new Projects Mechanism.

Pre-tender briefings — September 2003

The Climate Change Office (CCO) is to hold a series of briefings prior to the first Projects Mechanism tender round. Meetings are scheduled for 9, 10, 11 September 2003 in the main centres — please see the [CCO website](#) for more details.

Address by Energy Minister Pete Hodgson

Energy Minister Pete Hodgson addressed the conference partway through the proceedings. The Minister highlighted the following points in his speech:

- the New Zealand Projects Mechanism is a new concept and has no direct international precedent
- the Projects Mechanism is available to groups of firms
- New Zealand is now recording CO₂-equivalent emissions within its System of National Accounts
- pre-qualifying period (2008–2012 inclusive) emissions gains will not be directly rewarded through the issuing of New Zealand emissions units (EU) but will be considered when ranking Projects
- near-term electricity security continues to be a priority for government
- the Projects Mechanism will focus on "near viable" initiatives
- the New Zealand government expects that a considerable amount of wind power will be added over the next 12 years, to bring the total installed capacity to around 1200 MW
- New Zealand, as a nation, has more AAUs (assigned amount units) than it needs for the first qualifying period (2008–2012 inclusive) — which means that government can consider carrying these forward to the second commitment period (2013–2017 inclusive)
- certain Cabinet Papers on the Projects Mechanism are yet to be approved

- there will be a model agreement for Projects Mechanism Projects and some parts will be non-negotiable

Projects Mechanism — overall questions

A number of questions arose which concerned the Projects Mechanism in general terms.

One question related to the cap set on available emissions units. The Minister replied that this limit would be lifted if a large number of worthwhile projects were submitted for consideration.

Another question related to the 10 000 tonne CO₂-e minimum threshold for Projects in general and distributed generation more specifically. The Minister replied that two medium-sized (industrial) wind turbines would typically qualify and that the government did not currently regard this lower cut-off as a problem.

There was also speculation as to whether Russia would ratify the Kyoto Protocol — and thereby bring the Protocol into force as a binding treaty. Generally it was believed that Russia would ratify sometime prior to the Kyoto COP9 Conference of Parties to be held in Milan, Italy in December 2003.

A number of participants noted that it was difficult to estimate the present and future value of EU at the current time. Guestimates of around 7 EUR / tonne CO₂-e were voiced, given that the Protocol becomes law.

Additionality assessment — the details

There was a lot of discussion concerning the finer points of additionality assessment. Under the Projects Mechanisms, additionality has two dimensions:

- investment additionality — designed to screen & quotenear viable" initiatives from those that should proceed irrespective
- environmental additionality — interpreted as a reduction in CO₂-equivalent emissions over the first qualifying period (2008–2012 inclusive)

Both dimensions need to be interpreted relative to some estimate of projected business-as-usual (BAU).

The Projects Mechanism, in its current form, allows for considerable latitude when undertaking an additionality assessment. This means that applicants will need to discuss the assumptions which underpin their calculations and that these assumptions will be reviewed as part of the selection process.

Both Minister Pete Hodgson and Climate Change Office (CCO) officials pointed that the current exercise is a learning process and that procedural changes may well need to be introduced prior to the second round of Project bids in late-2004.

The key issues relating to additionality assessment raised during discussions included:

- defining project boundaries — how far back in the construction and/or fuel chain should an additionality assessment be required to go?
- establishing business-as-usual projections — what should be seen as reasonable?
- undertaking an economic analysis — how should key parameters, such as the cost of capital, be set?
- use of emissions factors — what constitutes a sensible estimate of the emissions content of displaced BAU national grid electricity production?
- flow-on effects in general (leading on from the previous point) — should some form of integrated assessment methodology be developed, perhaps at national level?
- the timing of emissions and emissions reductions — will those emissions that fall outside the first qualifying period be considered, and if so, how?
- the proposed carbon charge — how should the proposed carbon charge be factored into investment additionality calculations, given that the government has yet to announce either its level or its exact date of introduction?

Questioners also gave examples. The project boundaries query asked whether road building would be included and if the concrete in a dam should be counted. The emissions timing query cited one hypothetical project which would generate significant construction-related emissions prior to the first qualifying period and then have a good profile thereafter *versus* an alternative project which offers the opposite but also possesses lower lifetime emissions.

Not all the points above attracted unequivocal answers from government officials or the Minister. But the following responses were given — canvassed in the order shown above:

- project boundaries should probably not extend beyond the point at which the project initiator can be reasonably expected to exercise control over the resultant emissions
- BAU projections appear to remain uncharted territory
- economic parameter values will be assessed as part of the review process — at this juncture there are no official guidelines or proscriptions regarding items such as acceptable interest rates on borrowings
- emissions factors will be fixed for a particular project assessment, but will be reviewed from time to time as the generation mix evolves

- the inclusion of flow-on effects within the additionality methodology does not appear to be an issue under consideration by policy analysts
- actual emissions and associated BAU reductions outside of the first qualifying period do not strictly qualify as an environmental additionality — however favourable performance outside of the qualifying period will be taken into account when ranking projects
- the issue of providing some official guidance with respect to the proposed carbon charge was left unanswered, beyond comments that it was up to the applicant to complete their economic appraisal as they saw best

Projects Mechanism — offshore trading

New Zealand emissions units (or, initially, the associated promissory notes) need to be sold offshore for the holder to realise a cash benefit. Neil Cohn from US brokerage firm Natsource explained that New Zealand EU were attractive, in part due to the rigor with which their associated activities were evaluated. No substantive questions arose with respect to broker-mediated offshore trading and most participants seemed comfortable with the idea.

Projects Mechanism — legal aspects

The detailed presentations by the two major law firms raised many complex issues with several questions asked, however, at this stage the audience raised no substantive questions relating to legal issues.

Projects Mechanism — soft projects

Some participants raised the issue of whether initiatives which did not necessarily involve so-called "hard assets" (like windfarms) could qualify as Projects. Two examples were given:

- unit commitment policy revision in a complex energy system — which specifically resulted in decreased emissions and increased operations and fuel costs
- a local government policy measure — which, hypothetically, reduced vehicle usage and thereby emissions and also involved expense on the part of the territorial local authority

The general response was that firms should not limit their horizons regarding Projects — but neither was there a specific endorsement of soft projects by any of the government officials present.

Projects Mechanism — learning-by-doing side-effects

Suzi Kerr from economics research consultancy Motu, presented the view that, in themselves, Projects Mechanism Projects would have little direct effect on reshaping the New Zealand economy. Rather their primary contribution would be as a vehicle for proving technologies and disseminating experiences. On this basis, Suzi recommended that the government lock in some process to facilitate this information transfer as part of the Mechanism.

As a related issue, there was discussion on the so-called rebound effect, whereby energy efficiency investments, for instance, lead to lower operational costs and thereby more usage, at least of the provided energy-service — with two examples being comfort heating and personal mobility.

Competitiveness-at-risk (CAR) status

The question of eligibility for competitiveness-at-risk (CAR) status was raised. This requires that applicant demonstrate world best-practice in emissions management. The assessment process is followed by Ministerial approval.

Transport-related emissions

Although not directly related to Projects Mechanisms, the issue of personal transport and the recent upswing in vehicle emissions were discussed. Auckland is currently experiencing a 4% pa growth in vehicle numbers. The question of price elasticity of demand related to vehicle fuels was raised. Those who spoke agreed that publicly acceptable price increases had only a limited effect in depressing vehicle usage. However one participant suggested that the influence on repurchase decisions in favour of more fuel-efficient cars could be significant.

Resource Management Act issues

One questioner asked why the Resource Management Act (RMA) consent process did not contain stronger reference to climate protection, particularly in light of recent and proposed amendments to that Act. Energy Minister Pete Hodgson responded that only certain activities were captured by resource consents and that some of the worst offenders — cars, for instance — lay beyond the jurisdiction of the RMA. The Minister argued that it was more equitable to tackle climate change issues using more encompassing mechanisms — which are exactly what the government is working toward.

Non-harvest forest sinks

No substantive questions surfaced from the matter of non-harvest forest sinks.

European Union issues

There were a number of comments, questions, and responses revolving around the design of the official European emissions trading exchange and its likely rules. These comments are somewhat speculative because the European scheme has yet to be finalised. Moreover the issues are highly technical and do not warrant explanation here. Instead, the CCO may be able to assist.
