



EnergyManagement

Association of New Zealand

Transitioning to a Low Emissions Economy

Comments on the New Zealand Productivity Commission's Draft Report
8 June 2018

CONTENTS

1	Introduction	3
2	Overview	4
3	Comments on Specific Commission Recommendations	5
4	Missed Opportunities	9
	4.1 Built Environment	9
	4.2 International Energy Management and Emissions Standards	10
	4.3 Public Body Emissions Performance	10
	4.4 Education as an Enabler for Emissions Reduction	11
5	Conclusions	13

1. Introduction

EMANZ welcomes the publication by the New Zealand Productivity Commission of its draft report on how New Zealand can transition to become a low emissions economy and the opportunity to comment on it. It is particularly pleasing to see that several of the recommendations put forward by EMANZ in its original submission have already emerged as recommendations and we urge the Commission to consider carefully our comments when preparing and refining its final report.

EMANZ members, represented by the EMANZ Board, are expert in the areas of energy efficiency and, increasingly, carbon management. We have confined our comments to areas where we believe we can make a valuable contribution and are not commenting on areas outside our expertise, most notably, the areas of agricultural emissions and forestry. Further, we limit our comments to matters of substance and are not commenting on typographical or grammatical errors.

We have separated the remainder of this document into four sections, namely:

- Overview;
- Comments on Specific Commission Recommendations;
- Discussion of Missed Opportunities;
- Conclusions.

2. Overview

The draft report includes some excellent analysis and has clearly been well researched. It includes several recommendations that carry the full support of EMANZ and which we support emerging as future Government policy. Nevertheless, EMANZ also believes there are areas where the draft could be strengthened, in some areas to provide additional strength and emphasis to the proposal and in others because opportunities to enable and/or hasten the transition are not sufficiently acknowledged or emphasised.

The draft report places heavy emphasis on the role carbon pricing or an emissions trading scheme can play in reducing emissions. EMANZ agrees that effective emissions pricing is a critical element of enabling a transition to a lower emissions economy. However, it should be considered one of many potential actions and its influence should not be overstated.

The draft report acknowledges that price elasticity is very low for retail transport fuels. This is because fuel is seen as a necessity rather than a luxury by most motorists and significant price increases, such as have been seen in the first half of 2018, impact consumption very little. The impact on consumption of carbon pricing will have equally little effect, *ceteris paribus*, partly because of this price inelasticity and partly because the capital costs of switching to alternatives, i.e. EVs, is prohibitive for many. The impact, therefore, of carbon pricing on the transport sector will be limited.

Similarly in the business environment, other than a very small number of energy intensive industries, energy costs are a relatively small part of a firm's overall cost structure, being dwarfed by labour, rent and raw material costs. For a carbon price to be a significant driver of change in business decision making, a price far in excess of those being quoted in the draft will be required.

Evidence from a meta study of 19 carbon pricing systems¹ indicates that, while effective to some degree, reliance on carbon pricing as the main instrument to drive emissions reductions would not deliver significant emissions reductions. Rather, pricing should be considered a necessary, but far from sufficient instrument in reducing emissions.

The influence of higher carbon prices is overstated in the draft and expectations of the relative influences of carbon pricing and the need for other actions should be more balanced.

¹ https://aceee.org/files/proceedings/2016/data/papers/9_49.pdf

3. Comments on Specific Commission Recommendations

Below, we have listed the Recommendations we feel qualified to comment on and have added comment where appropriate. Inevitably at this stage, the phrase “the devil is in the detail” applies to many of the recommendations and where we have indicated support in principle, this should not be interpreted as unconditional, or even strong, support for the recommendation at this stage.

Recommendation	Comment
R5.1	Supported
R5.2	Supported in principle, with reservations around how this may be applied
R5.3	Supported in principle, with reservations around how this may be applied. The role of education in transitioning to a low emissions economy is understated throughout the report and should be included as a key pillar of the transition.
R5.4	Supported in principle, with reservations around how this may be applied. The role of education (absorptive capacity) in transitioning to a low emissions economy is understated throughout the report and should be included as a key pillar of the transition.
R5.5	Supported in principle, with reservations around how this may be applied. In particular, care will be needed to ensure a “just transition” is maintained.
R6.1	Supported in principle, with reservations around how this may be applied.
R6.2	Supported

Recommendation	Comment
R6.3	Supported
R6.4	Supported in principle, with reservations around how this may be applied.
R7.1	Supported
R7.2	Supported
R7.5	Supported
R7.6	Supported in principle, with reservations around how this may be applied.
R7.7	Supported
R7.8	Supported
R7.9	Supported in principle, with reservations around how this may be applied.
R7.10	Supported
R7.11	Supported
R7.12	Supported in principle, with reservations around how this may be applied.
R11.1	<p>Supported in principle, with reservations around how this may be applied.</p> <p>Restricting emissions controls to new vehicles entering the fleet fails to address the emissions of the existing fleet. A stronger measure would be to introduce emissions controls as part of the Warrant of Fitness check with gradually tightening standards. There is also potential for unintended consequences if a moderately emitting vehicle which would have displaced a high emitting vehicle is prohibited from entry. Restrictions on new entries only may result in increasing the average age of the fleet and limiting the effectiveness of vehicles emissions testing.</p>

Recommendation	Comment
R11.2	Supported in principle, with reservations around how this may be applied.
R11.3	<p>Not supported.</p> <p>This action will be, in effect, a subsidy to certain market participants and not an appropriate use of taxpayer resources.</p>
R11.4	Supported
R11.5	Supported in principle, with reservations around how this may be applied.
R11.6	Supported in principle, with reservations around how this may be applied.
R12.1	Supported in principle, with reservations around how this may be applied.
R12.2	Supported in principle, with reservations around how this may be applied.
R12.3	Supported
R12.4	Supported
R13.1	<p>Not supported.</p> <p>Energy efficiency is a key contributor to lowering emissions and delivering overall productivity improvements. This contribution should not be devalued by changing the primary focus of EECA. Emissions reduction should become part of EECA's remit – as is the practice already under the NZECS – but should not be its primary focus. Stating a primary focus for EECA as emissions reduction introduces a high risk of singular metrics with associated unintended consequences for energy efficiency and energy productivity.</p>
R13.2	<p>Not supported.</p> <p>A holistic approach is required for EECA to operate to best effective.</p>

Recommendation	Comment
R13.3	Supported in principle, with reservations around how this may be applied.
R13.4	Supported in principle, with reservations around how this may be applied.
R15.1	Supported in principle, with reservations around how this may be applied.
R15.2	Supported in principle, with reservations around how this may be applied.
R15.3	Strongly supported in principle, although the emphasis on reducing emissions associated with peak electricity demand is unnecessary.

4. Missed Opportunities

Notwithstanding our view that the report has been well researched, there are several opportunities for improving carbon emissions that are omitted or under-emphasised in the draft. We list below those that will have a material impact on New Zealand's emissions and are significant enablers of our transition to a low emissions economy.

4.1 Built Environment

It is refreshing to see the important role that improving the emissions performance of the built environment, in particular commercial buildings, is recognised in the draft².

Improvements in this area will emerge through energy efficiency, both in respect of new builds and retrofits of existing building stock. This recognition, however, is somewhat diluted by Recommendation 13.1, which proffers a switch of emphasis of EECA to carbon mitigation rather than energy efficiency. Such a change of emphasis risks a loss of focus on the benefits that energy efficiency brings as new assessment metrics will reflect the changed focus. Energy efficiency and emissions mitigation are complementary, however, the Government should not lose sight of energy efficiency improvements through a stated switch of emphasis for EECA and the adoption of narrow metrics focused solely on emissions. A range of complementary, holistic metrics should be adopted rather than a single focus, which commonly results in unintended consequences.

Similarly, the recommendations in Section 15 should be extended to split and address separately recommendations for commercial and residential buildings. While it is acknowledged that the residential housing stock in New Zealand is, for the most part, energy inefficient, the same can be said for commercial buildings. It is important both these sectors are identified and targeted as areas for potential improvement.

Energy efficiency labelling of commercial buildings has been effective overseas in highlighting building performance. In Australia, in particular, NABERS ratings are a common selection criterion for tenants and higher rated buildings command stronger rents and, therefore, higher capital values, *ceteris paribus*. Energy efficiency performance in commercial buildings has improved markedly since the introduction of the NABERS scheme,

² New Zealand Productivity Commission, 2018, Low-emissions economy, Draft report, Section 15.

with consequent positive impact on emissions³. The NABERS scheme is successful in the Australian market because it is mandatory for buildings above 1,000 sqm floor area. NABERSNZ exists in New Zealand but has experienced limited uptake. Making NABERSNZ mandatory in New Zealand will drive uptake, efficiency and emissions reductions.

4.2 International Energy Management and Emissions Standards

It is very noticeable that international standards in energy management (ISO50001) and GHG emissions (ISO14064) are not mentioned in the report. Widespread adoption of these standards will be a major boost towards New Zealand achieving a transition to a low emissions economy. Full adoption of these standards and accreditation to the standards will likely be practical only for larger organisations but as these are commonly major emitters the value of compliance should not be understated. Equally, many of the practices arising from adoption will be relevant to small and medium sized businesses and their promotion to this demographic will deliver improvements even if full accreditation is not pursued.

The final report should include recommendations around the promotion and adoption of these standards, to include Government taking a lead by adopting for its own activities. Widespread adoption will also deliver commercial, competitive advantages for adopting businesses as they will be able better to evidence their sustainability credentials.

Further, the final report should include a recommendation that research be undertaken to investigate the merits of mandatory compliance with ISO50001 and ISO14064 for specified companies (thresholds to be part of the research).

4.3 Public Body Emissions Performance

While not wishing to introduce unnecessary additional burden on public bodies, the ability to capture data on energy use and on emissions in general is becoming more straightforward and doing so is becoming more widespread. Presently, there is no obligation for this information to be made public and yet many local authorities are releasing this information

³ NABERS, Annual Report, 2016-17

as part of their commitments to a sustainable future. This practice should become more widespread both to increase awareness and as an action of best practice. Central Government should take the lead on this by publishing the emissions performance of its facilities and departments and local authorities and other public bodies should also be required to do so.

4.4 Education as an Enabler for Emissions Reduction

A major omission from the draft is the lack of mention of education in understanding climate change and, specifically, in the education of businesses in understanding their emissions profiles, enabling them to address emissions better. Despite numerous submissions to the Inquiry identifying education as a key enabler of lowering emissions – analysis by EMANZ suggests the number of submissions raising this to be over 30 – the important role of understanding how emissions occur has been overlooked in the Commission’s recommendations.

We note the draft alludes to the importance of New Zealand companies’ ability to absorb and exploit new technologies. In referring to research by Harris & Le (2018)⁴, the report states: *“The research concludes that scope exists for policy to improve the absorptive capacity of firms by assisting the firms to improve their internal capabilities. a corollary is that simply providing external knowledge about clean technologies is unlikely to be enough for firms to adopt them – unless these firms have sufficient absorptive capacity”*⁵. We note that while Recommendations 5.3 and 5.4⁶ mention *“knowledge dissemination and learning, skills,”* and *“helping firms to improve their absorptive capacity”*, respectively, we feel the important role education plays is grossly understated in the draft.

The importance of education has been recognised by the Minister for Climate Change who, in his address to the EMANZ Conference of May 2018 said:

“It [the transition to a low emissions economy] is going to need organisations like EMANZ to help equip businesses with some of the skills they need to substantially reduce emissions.

⁴ Harris, R., & Le, T. (2018). Absorptive capacity in New Zealand firms. Motu working paper 18-01, Wellington, Motu Economic and Public Policy Research

⁵ New Zealand Productivity Commission, 2018, Low-emissions economy, Draft report, p130

⁶ New Zealand Productivity Commission, 2018, Low-emissions economy, Draft report, both p131

They'll need the kind of expertise [EMANZ] has previously talked about to up their knowledge of carbon mitigation. I support [EMANZ's] suggestion that businesses need to think about providing professional pathways in energy and carbon management.”⁷

The Climate Change Adaptation Technical Working Group (CCATWG) reiterated the importance of education in May 2018. Action 15 of its report explicitly states the importance of education and the need to build capacity in New Zealand businesses, saying:

“We recommend developing a specific climate change adaptation professional development programme for key practitioners.”⁸

We believe the Commission's final report should also acknowledge the critical role education will play in the transition and encourage Government to facilitate addressing these educational needs.

The importance of education extends beyond understanding how emissions occur. We note that information and inertia barriers are, correctly, identified as barriers to investment in Figure 6.1 of the draft⁹. Critical to breaking down such barriers is education around technology alternatives, the true life-cycle costs of investment options, understanding the emissions implications of investment options and adopting a long term investment analysis horizon. Again, adoption of these practices will come through education and it is a serious omission from the draft that the education of businesses is excluded.

⁷ Hon James Shaw, Minister for Climate Change, EMANZ 2018 Conference, <https://www.beehive.govt.nz/speech/energy-management-association-nz-conference>.

⁸ Climate Change Adaptation Technical Working Group, May 2018

⁹ New Zealand Productivity Commission, 2018, Low-emissions economy, Draft report, Figure 6.1, p139

5. Conclusions

EMANZ appreciates the work that the Commission has already undertaken in producing its draft report and the outstanding work required to produce the final report.

EMANZ notes and agrees with the four stated key components of a stable and credible climate policy, namely, Emissions Pricing, Laws and Institutions, Regulation and Policies and Innovation and Investment, but believes a fifth component – that of Education – is equally significant and valuable.

Finally, we would like to take the opportunity to offer our assistance, albeit of limited resource, to the Commission in finalising its report and the Government in developing policy and strategy from it.

A handwritten signature in black ink, appearing to read "Mike Hopkins". The signature is fluid and cursive, with a prominent flourish at the end.

Dr M Hopkins
CEO, EMANZ

ENDS