

**BIOENERGY ASSOCIATION OF NEW ZEALAND Inc  
SUBMISSION TO EECA and MFE ON THE SUBJECT OF**

**RENEWABLE ENERGY: THE PROPOSED TARGET FOR NEW ZEALAND**

**Including comment on  
THE GOVERNMENT'S PREFERRED POLICY PACKAGE ON CLIMATE CHANGE**

**Date : 14 June, 2002**

**Introduction/Executive Summary**

BANZ are cautiously encouraged that bioenergy has been recognised as a key tool by which New Zealand can meet its renewable energy target, but are disappointed at the relatively small size of the Proposed Renewable Energy Target (PRET). European and other countries have far less potential for renewable energy, in particular biomass derived energy, but have much more ambitious targets and programs.

Given the massive revenues the Government will generate from carbon taxes (and forest sinks) it seems hard to justify making only \$16m per year available for renewable energy/carbon abatement. Increasing the availability of assistance will allow a larger target to be set, which could then be achieved.

We would like to emphasise that a lot of bioenergy heat plant is currently being installed (approx 40MW<sub>th</sub> per year) even without any policy. This is mainly in the wood processing sector. With good support the same proven technologies can be applied to supply other industrial heat users with their thermal energy (and electricity where scale allows). The Bioenergy industry is well established, but needs more support to realise the full potential. This support should be 'soft' as well as direct financial, as the soft programs (information gathering, education, training, promotion) are key enablers and give at least as much value.

BANZ also feels there remains very significant opportunities to improve the proposed mechanisms to more effectively meet the super-ordinate goal of the NEECS and the Climate Change legislation (which is to reduce carbon dioxide emissions). This goal is more likely to be achieved by the application of a more specific program (and target) for certain clusters of emitters - with each cluster being required to achieve a collective target. The precedent has already been set for this, with the proposed 1PJ target for Solar Water Heaters. BANZ would be interested in working with the Government and relevant stakeholders in developing such cluster targets.

As requested in NEECS PRET document, we have structured the BANZ responses according to the 4 questions.

Note that this submission, though largely dedicated to comment on the PRET, also includes comment on the Governments Preferred Policy Package on Climate Change. Obviously is hard to make comment without crossing the boundaries into the area of Climate Change. For ease of reference, where this has happened a box is shown in the left hand margin, with the text "CC overlap"

**1) Do you support the Proposed Renewable Energy Target (PRET) of 30PJ of consumer energy from renewable sources by 2012 ?**

- 1.1 BANZ supports the introduction of a specified Renewable Energy Target, but believes that the 30PJ target is too low, as it represents only about 10 PJ above business as usual (BAU) once 50% of Project Aqua and the effects of the wood processing strategy are factored in. This 10PJ equates to 2PJ for each of the proven renewable technologies of wind, hydro, bioenergy, PV and solar. BANZ feels a more ambitious target should be set; one that recognises and seeks to maximise New Zealand's rich opportunities to use renewable energy, in particular biomass resources. If more funds were made available then this would ensure a higher target would be achievable (see 2.1).
  
- 1.2 An extract from the 17<sup>th</sup> December BANZ submission is still valid : *If one takes the view that (in order to create certainty) any target should be on the ambitious end of the range, then a detailed analysis of demand is not critical to the setting of the target.*
  
- 1.3 BANZ still believe a reasonable target for the industrial heat sector is 14.6 PJ output (or 19.6 PJ input) – refer to the BANZ submission dated 17<sup>th</sup> December 2001. This equates to an uptake rate of 60MW<sub>th</sub> per year, so about 50% higher than current rates. Given the expansion in the forestry sector, and the increasing gas prices (as Maui declines) the 50% increase over current uptake levels is very achievable, and may actually represent BAU.

## 2) Do you support the Proposed mechanisms to achieve the target ?

### 2.1 Renewable Energy Fund.

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BANZ cautiously supports the use of a renewables fund, as it should enable many projects to proceed that would not otherwise. However, given that the Governments coffers are going to be swollen by billions of dollars from carbon tax revenue and from forest credit sinks (the latter being worth about \$1.5-2.5 billion alone) we feel that much more than \$16m/yr should be made available to encourage the uptake of renewable energy. In principle all revenues from carbon taxes should be ploughed back into carbon abatement/renewable energy initiatives. Availability of a larger fund would allow a higher target than 30PJ to be set, and would ensure New Zealand maximises its opportunity.

Furthermore if the \$16m is to cover carbon abatement as well as renewable energy projects, then the amount does seem particularly low.

BANZ would welcome being involved in developing a strategic plan for the implementation of a project-based fund. There are many issues that should be developed, and considered in introducing this mechanism. With strategic foresight in place, much could be achieved in terms of encouraging a transition from non sustainable energy (i.e fossil fuels) to sustainable energy forms and achieving gross reductions in emissions relative to 1990. Some specific issues that would be relevant in developing such a strategic plan are considered below.

BANZ recommends to the Government that EECA is best able to administer the Renewables Projects and Programmes Funds. EECA has an established mechanism that can be extended without significant administrative cost and it has a clear understanding of relative priorities.

#### 2.1.a Size of renewable energy fund

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It is unclear how much money will be available, and at what time. The lead time for many projects will be long and feasibility assessments and planning needs to start ASAP. This is unlikely to occur while the details of the fund remain vague, and projects will be implemented later than they could have been. BANZ therefore recommends that the fund is fully available (at least \$16m/year) from the earliest possible date. A clear statement on this would remove the uncertainty and allow earlier action.

#### 2.2 Allocation criteria for the RE fund.

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BANZ would like to see simple and objective criteria for allocation of a RE fund. The fund must be administered purely on the criteria of least cost abatement, otherwise there will be accusations of favouritism.

#### 2.3 Additionality : Simple and clear rules.

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There is a danger that the fairness, objectivity and transparency offered by an open auction process could be negated by a complex process (and criteria) to establish which projects are eligible to participate in the bidding.

From an ideological perspective, any RE project should qualify and only RE projects should qualify for the RE Project fund (as opposed to abatement or efficiency, which should be covered under funding for Climate Change). Mr. Mark Kenber (senior policy officer at WWF) applauds the strict additionality criteria that apply in the UK, but feels that the Government could remove many of the problems if it restricted projects to renewable generation [and efficiency]. Any assistance program will inevitably

create winners and losers, so the Government should not embark on a doomed search for the holy grail of incentive schemes. The additionality criteria for Kyoto CDM and JI projects do not need to be applied in the domestic market.

So BANZ suggest that, if there are to be rules for “additionality” they need to be simple.

An extract from the 17<sup>th</sup> December BANZ submission is below in italics :

**5.2.4 Business as Usual versus Displacement ?**

*To a large extent this debate is a distraction. There is a case to be made that only generation (heat or electricity) that would not have happened without a mechanism/incentive should qualify for REC's. However such a stance would introduce arguments of inequitable treatment, and debates as to whether a project should qualify or not.*

*BANZ recommends that all projects commissioned from 1<sup>st</sup> January 2002 (latest) should qualify for REC's. This simple rule will eliminate costly and wasteful debate.*

BANZ would like to re-emphasise this point.

**2.3.a Additionality - Uniform criteria for different businesses**

Whether a project would have proceeded under BAU depends on a lot of variables which are specific to the business, including:

- tax losses incurred in other parts of the business
- the discount rate used for project appraisal
- the rate at which plant is depreciated
- The business' perception of the future level of carbon tax

This means that a project which would occur as BAU for one business will not occur for another. Simplicity would be enhanced if standard criteria are developed for calculating the NPV of the project, to be applied to all parties. If this is not done companies will have the opportunity to manipulate their capital allocation policy to get the fund paying for a bigger chunk of their project.

**2.4 Administrative burden.**

A potential barrier to success is an overly complex application process.

This could be partially addressed if the administrative hurdles are smaller for small projects. For instance any project under 10MW<sub>th</sub> should have less hoops to jump through to qualify for funding than a bigger project.

The delineation could be in simple capital terms (i.e. less than \$1 million assistance) or in cost per tonne of carbon abated (e.g. anything under \$25/tonne of CO<sub>2</sub> displaced).

- 2.4.1** Bids in to the Project fund should be accepted prior to a Resource Consent having been granted, otherwise the perception will be that too much effort is required prior to being allowed to make a bid. i.e. Companies will not want to waste time applying for a Resource Consent until they know their project is financially viable. So Project funding should be granted subject to a successful application for resource consent.



## 2.5 **Transparent bidding process.**

The auction round should be open, or at least feedback should be given afterwards, otherwise bidders will not know by how much they missed out and by how much they would (probably) need to improve at the next bidding round in order to be successful.

Furthermore, if the bidding is open the mechanism will be more efficient, as it will lead to competitive tension, which will therefore reduce the likelihood of less excess margin in the bids.

Thus transparency will allow market forces to optimise, as least cost abatement would be achieved.

## 2.6 **Carbon Abatement.**

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BANZ supports the principle of least cost carbon abatement.

When bidding in to the fund for assistance with electricity generation, it needs to be stated clearly in advance what the rules are for the calculation of cost per tonne of CO<sub>2</sub> abated i.e. is it based on displacement of coal or gas-fired generation, or some composite. BANZ suggest that, in order to allow simple and consistent rules a nationwide average is used (i.e. x tonnes of carbon for each kWh of production, where x is based on 70% coal and 30% gas, derived from expected future generation growth over the coming 10 years).

## 2.7 **Frequent bidding rounds.**

BANZ feels the RE fund should be administered quarterly, at least initially. This will have the following benefits :

- a) Projects will not be on hold pending a less frequent auction process.
- b) This will allow greater business certainty.
- c) Frequent bid-in rounds will lead to rapid learning-by-doing, thus enabling teething problems to be eliminated early in the scheme (further eliminating business uncertainty)
- d) Quarterly rounds will enable an earlier understanding of the relative costs of carbon abatement of the various energy types.

## 2.8 **Dedicated funds for Renewable Energy.**

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BANZ understands that the intention is to have one Projects fund that supports both NEECS and Climate Change objectives. It is important that, in order to create business certainty a pre-ordained amount is identified as being available to support Renewable Energy projects. Our preferred option, in order to ensure the highest chance of success of meeting the PRET objectives is a separate stand-alone Projects fund for renewable energy projects.

## 2.9 **Complementary mechanisms : BANZ preferred option.**

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A view demonstrably shared by other countries is that the most effective way to address the objectives of the NEECS and the Climate Change policy is to have a suite of mechanisms that complement each other. Therefore BANZ favoured mechanism remains a Renewable Energy Certificate scheme, with two separate schemes, one for electricity producers (e-RECs), and one thermal heat users (t-RECs) to address two major sectors of energy use (and therefore emissions). See the initial BANZ submission dated 17<sup>th</sup> December, 2001, section 5.

### 2.9.1 **Solutions for specific problems of a REC scheme.**

The PRET document identifies three problems with RECs.

- 2.9.1.1 The first potential problem identified is the “lumpiness” associated with Project Aqua. One possible solution is to exclude this project from the target, which would eliminate its effect altogether. Another option would be to define renewable energy in such a way as to eliminate large scale hydro projects (as is done internationally).  
Alternatively, dividing the PRET into different sectors, as was originally proposed in the draft NEECS document, thus ring-fencing this project with the rest of the electricity producers. Both these measures would ensure that the lumpiness does not impact on initiatives in other energy sectors (eg the thermal heat sector).
- 2.9.1.2 Another barrier to a REC system is the perceived difficulty of measuring/validating heat use, as would be required for thermal RECs (t-RECs). Electricity meters are used to measure electricity. Similarly steam meters are used (especially amongst larger users) to measure heat used.  
Studies have already been done to assess the feasibility of measuring heat use and concluded that there would be no major problems. EECA/MFE could urgently commission its own independent feasibility study to ascertain this. However, if the suggestions in section 2.11 are adopted then this problem would diminish further.
- 2.9.1.2 The third perceived problem with RECs is the lack of technology choices facing the transport sector. Given that biodiesel is used widely elsewhere in the world, this seems a little tenuous. If the costs of bringing biodiesel to New Zealand is shared by all the retailers of transport fuels (as it would be), the cost impact would be limited, especially if assisted by a tax breaks.  
If this line of thinking is not agreeable, another point is that it is not actually necessary to have a REC scheme in place for the transport sector. The electricity and heat markets could operate quite independently of the transport sector.

## 2.10 Electricity RECs

- 2.10.1 A REC scheme specifically for the Electricity generators (e-REC) would be a lever to apply specific pressure to be pro-actively pursuing renewable energy projects. Due to the preliminary decision not to use a REC scheme (in conjunction with a mandated target), it seems that the electricity generators are under no specific pressure to improve their emissions profile.  
Carbon tax has now been selected as a preferred mechanism, to be introduced after 2007. BANZ comments submitted 17<sup>th</sup> December 2001 are shown in italics :

*Whilst such a system is relatively simple to administer it does, potentially, have significant drawbacks. [.....] With a carbon tax the fossil fuel generator will pay more for their fuel but will simply pass that on to the consumer – so the desired outcome will not be achieved.*

*[.....]*

*Ultimately, under a carbon tax regime, the whole cost of the carbon tax is passed on to the consumer and there is no resultant displacement of fossil fuels.*

The comments above are still valid, so pressure needs to be applied to this category of emitters. A REC scheme for this cluster (as for the NGA cluster, see section 2.11) could be a practical solution, and one which delivers some gains sooner (given that the introduction of a Carbon Tax is not until after 2007). BANZ therefore favours an e-REC system with a mandated emissions reduction target (MERT) for this sector, which would at least oblige some action (due to the threat of a penalty if the targets are not achieved).

- 2.10.2 Collective target, allocated between the generators.  
Another down-side of a carbon tax is that it will lead to windfall gains for the hydro generators. This issue can also be addressed equitably via an e-REC system, by ensuring that those generators who gain the biggest windfall profits are obliged to produce a larger share of the targeted emissions reduction for the sector, where increased RE generation also qualifies as emissions reduction. This method would, for



instance, lead to more rapid implementation of the various phases of Project Aqua, with the knock-on effect of conserving New Zealand's gas resources.

## 2.11 Thermal RECs

- 2.11.1 It appears that only a limited number of companies will qualify for an NGA, based on the “competitive-at-risk” concept. The fundamental inequity of the NGA scheme is that the big emitters negotiate an exemption from a carbon tax, effectively leaving the smaller emitters to bear the cost burden. There is a simple solution to this inequity : A REC scheme that addresses the thermal heat use (i.e. a t-REC scheme) for the NGA cluster of companies. (The mechanism suggested in 2.10 would address the electricity sector separately)
- 2.11.2 This cluster would have MERT, just as the Electricity generators would. Such a scheme would allow the big emitters to co-operatively identify opportunities for their members to displace carbon emissions, including identifying least cost renewable heat generation.
- 2.11.3 This system would overcome the perceived measurability and validation problems of a nationwide t-REC system, as the big users would all have comprehensive records of their heat usage.
- 2.11.4 Lengthy debate would be removed from the whole NGA process as there would be a simple “cluster-wide” target. It also would remove the validity of concerns such as expressed in the 17<sup>th</sup> December BANZ submission :
- NGA's, whilst simple in principle, will inevitably lead to accusations and finger pointing : Any agreement reached by one company/industry will set the benchmark for the others. Furthermore it will lead to different treatment for different industries, thus compromising the integrity of the principle of equal treatment for all.*
- 2.11.5 The NGA cluster should be allowed to identify and fund renewable energy/abatement projects outside the cluster, thus leading to least cost abatement.
- 2.11.6 Administration of the scheme would be simpler than a nationwide scheme, as the participants would be limited to NGA companies, thus saving costs.
- 2.11.7 Non-NGA companies would have less reason to complain of unequal treatment, and could also benefit from the NGA cluster paying for their renewable energy (if it is a lower cost project).

## 2.12 Project mechanisms to assist with the variable costs of renewable fuels.

Parties should be able to bid in to the fund to assist with the cost of procuring the renewable fuels where it is uneconomic under BAU circumstances. Similarly fuel suppliers should also be able to bid in to allow it to reduce the price to the customer in order to allow more competitive supply. Such assistance would allow projects to be of a greater scale (potentially allowing more co-generation), increase efficiencies and achieve the objectives of least cost abatement.

## 2.13 Project mechanisms to assist with the capital cost of biofuel preparation.

Just as valid as assisting with the capital cost of the renewable energy plant itself is assisting with the capital cost of the plant required for biofuel preparation. This could either be to assist with the capital cost of setting up biodiesel, ethanol or pelletising plant, or to procure a hogging machine, for example. This capital assistance would flow through to a reduced fuel price, allowing bioenergy to be more competitive, and leading to increased uptake.



#### **2.14 Other proposed mechanisms**

BANZ supports the Programmes mechanism as an essential aspect of improving the capability of the wood processing industry to increase the uptake of bioenergy. Currently many in the industry do not have adequate access to up-to-date information on the economics and performance characteristics of bioenergy. Many use information in the form of articles, handbooks, or technical guides that date back to the late 1970's when the information was last produced.

In order to increase the uptake of bioenergy there is a need for further information, case studies, good practice guides, training, and demonstration/pilot projects. The need is not for research but for applied application/development of information and experience.

It is the lack of good information on the technology and associated aspects that are holding back an increased uptake in bioenergy. A small investment in these sectors will make a large difference to the level of uptake.

The Programmes mechanism must be focused on each specific renewable energy sector eg bioenergy, and not on renewable energy in general. While it is acknowledged that the emphasis within the over all renewable energy programme will have to be balanced between short term and long term objectives, each sector has specific requirements that would be lost within a predominantly cross-sectoral renewables programme.

The bioenergy sector principally has short term objectives as systems are available immediately without the need for substantial research or cost reductions. It is already able to justify government support by demonstration of its current economic value to investors. This is reinforced by the 40 MW<sub>th</sub> of heat plant that is estimated to be installed annually.

The support programmes must be administered to allow financial support for 'soft programmes' such as information and promotion and not limited to pure research, technology development, or engineering. The programme must be able to support both small and large projects.

#### **2.15 Industry Associations**

The Renewable policy has put a strong emphasis on working with the industry associations in order to facilitate Government and industry working together. Most renewable industries in NZ have relatively small players who do not have the cash flow to put money into R & D. As a collective body these associations have more strength and can pool the little resources their members have - usually in the form of time rather than money. This also means that the Government obtains industry buy-in and priorities are agreed by large parts of the industry. This contribution does not reflect in national R&D figures. The Government should continue to support such industry associations in order to ensure a closer dialogue between the various stakeholders.

#### **2.16 Research & Development**

R & D normally relates to funds from say FoRST whereas, for many, FoRST is irrelevant as they are working in the applied area of development, and not pure research. The policy is trying to provide a better balance between applied development and research. As an example Solar Water Heaters are a proven mature technology which does not need research - but does need financial assistance to help with market transformation. Similarly bioenergy is proven, but needs a leg up to realise its potential. There are other areas that would benefit from this type of assistance, for instance pellet fireplaces coupled to wetback systems, biofuel blending with petroleum fuels, and biodiesel or ethanol production.

BANZ would welcome discussions with the Government on establishing a research consortium that would include the Association, FRST, other Government Departments and Research providers. Such a consortium could develop a RS&T strategic plan taking into account the need for a balanced research portfolio which incorporates fundamental, applied and near to market research and be instrumental in prioritising demonstration facilities. Such an approach would ensure that near to market technologies are introduced into New Zealand, and that there is ongoing fundamental research to bring through new technologies further out which could further contribute to New Zealand's sustainable future.

## 2.17 Trading of carbon credits

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Given that the Government does not need all the carbon credits generated from sinks and abatement in order to achieve its Kyoto targets/commitments, then there is a strong case to be made that it should only nationalise the required amount, and allow the natural owners to retain the balance. Both sinks and credits are of equal validity under Kyoto, so the amount/proportion of abatement and sinks nationalised should be on a pro-rata basis to allow both the sinks sector and the abatement sector to benefit from their activities.

This would then allow trading to occur, both domestically and internationally, which unlocks the power of the market. Failure to allow trading would spurn the mechanism that Kyoto has chosen as the most efficient one to encourage abatement. If the Government were to allow trading there would be the following benefits :

- a) A Carbon trade would carry with it more certainty for business than relying on a Government fund. So it would be an option that many businesses prefer.
- b) That in turn would allow the RE fund to be preserved to fund other projects, so it would also allow the tax payers funds to go further.
- c) Trading would mean that business bears all the administrative cost associated with their project, thus alleviating the burden on EECA/Government.
- d) This would be a net gain for New Zealand GNP
- e) Ultimately there will be greater levels of carbon abatement

### 2.17a Attracting investment to New Zealand

Allowing carbon trading could also act as a mechanism to attract energy-intensive manufacturing to New Zealand, as, where they can use renewable energy (rather than fossil fuels overseas) they can earn extra revenues by selling the abatement credits created.

(Trading does not preclude the use of a Renewable Energy/Carbon abatement fund - it would actually complement it and make it more successful).

## 2.18 Ownership of credits

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It has not yet been clarified who would own the carbon credits generated by "assisted" or unassisted projects if they were to become tradeable one day.

This needs to be clarified as if not made clear it will provide another area of uncertainty, therefore an inhibitor to action. If business reaches the logical conclusion that they would retain the ownership of credits if they fund the projects themselves, then effectively business is faced with the following choice :

- i) Gain Government assistance (from the RE fund) and lose the possibility of being able to trade the credits in the future or
- ii) Chose not to bid into the fund, but retain the right to the carbon credits for the future.

The perception of the future value of carbon credits will decide which option business chooses.

Allowing businesses to own and trade their credits regardless of who funded the project would remove this area of uncertainty and deliver the benefits listed under 2.17 above.

### **3) In the sectors you are most familiar with, what improvements could be made to the sectoral programmes?**

#### **3.1 Government Procurement program.**

BANZ feel a Government procurement program (similar to the proposed one for Solar Water Heating) would be appropriate for major Government-owned energy users, especially where there is significant heat demand (eg hospitals, schools, penal institutions and other government buildings). BANZ would welcome the chance to work with Government to develop such a program.

#### **3.2 Water and space heating.**

It is important to realise the potential to supply space heating and hot water demand in small institutions, like schools, as well as in large institutions. This may require some upgrading to handle biofuel, and infrastructure required for central heat and power systems.

To develop such markets fuel upgrading may be critical as has been demonstrated in other countries. The final policy should provide some direction on using biomass for low grade heating situations (as there is for solar water heaters) which go well beyond the traditional domestic wood burner.

#### **3.3 Integrated District heating.**

Because of the large amount of industrial heat used in New Zealand there are viable opportunities to integrate large industrial heat use with individual (large) heat users to allow district heating schemes in industrial areas, and cogeneration in parts of the country. Such schemes should receive appropriate assistance and encouragement.

#### **3.4 Co-firing**

The simplest and easiest way to displace carbon emissions is to co-fire coal boilers with biofuel. The extent to which this is possible will vary from boiler to boiler, but as a general rule 10% should be achievable. A mandated requirement for this would displace 10% of carbon emissions at least cost. See point 4.6 in the 17<sup>th</sup> December BANZ submission.

#### **3.5 Other Assistance**

There is a greater need for Government support for industry initiatives and associations. For very little money much value can be created through the likes of BANZ. BANZ also has its own programmes, such as its Action plan. This is under-funded, so is languishing. Greater support from the Government would allow BANZ to deliver on these plans, from which the Government would gain exponentially.

#### 4) Do you have any further comments on the proposed renewable energy policy ?

Further comments on the policy include :

##### 4.1 Resource Consents.

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A fast-track Resource Consenting process needs to be developed for renewable energy projects. Furthermore, District and Regional Councils Plans allow natural gas but exclude bioenergy, and this is often a major barrier to uptake. There is a strong need to educate councils, and ensure there are no undeserved prejudices and barriers. As long as these barriers exist business certainty will be compromised, thus creating another barrier to uptake.

##### 4.2 Verifiable upgrades.

It is stated in the Preface (Box 1) that verifiable upgrades of Hydro and Geothermal heat qualify as renewables. There are also significant opportunities to upgrade existing co-fired plants to take a greater proportion of biofuel (versus fossil fuel). To avoid future debate it needs to be clearly stated that these projects also qualify.

##### 4.3 Link between Climate Change and Renewable Energy.

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BANZ suggests that the ‘least cost abatement’ principle should be the “common mechanism” (para 40) that would support both climate change and renewable energy objectives. In this way all abatement project could qualify for funding, the amount depending on whether it was a transition to lower carbon emitting fossil fuels or a renewable energy project – the latter would attract more funding. This would reduce dependence on fossil fuels and assist with the diversification of New Zealand’s energy supply sources. The value attached to each tonne of carbon abated may need to be higher for renewable projects to recognise the value of achieving the NEECS goals, and the national interests of a more diversified portfolio of energy sources.

##### 4.4 Maintaining the integrity of a carbon tax

BANZ comments submitted 17<sup>th</sup> December 2001 are below in italics :

\* CC  
overlap

*BANZ strongly advocates that, if selected as the chosen mechanism, any revenues from a carbon tax must not be used to subsidise government income (and thus allow another tax form to be reduced). This would be a blatant misuse of an environmental tax : Any revenue generated from an eco-levy must be channeled into a separate fund which is used exclusively to accelerate the displacement of fossil fuels (for example by assisting with the capital cost of transition – see section 4.4), and to encourage research into, and development of, more future-friendly energy technologies and fuels.*

*Such principles are being used to collect and administer carbon taxes in European countries. To use revenues generated by a carbon tax in any other way is to take the revenues created by long-term damage to the global climate to fund short term tax reductions.*

BANZ are disappointed to see that this is not reflected the Government thinking, and would like to strongly reiterate the point.