

File Reference: A2161778



Report To: Lake Rotorua Stakeholder Advisory Group

Meeting Date: 18 August 2015

Report From: Stephen Lamb, Water Policy

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## Discussion on Block versus Sector for Allocation and Short Term Trading

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### Executive Summary

This report presents the response from the Lake Rotorua Stakeholder Advisory Group Subcommittee that considered two areas of the rules framework:

- The use of blocks or sector as the basis for allocation of NDA; and
- How short term trading might operate

Feedback from StAG on the current Council staff position is useful to test the thinking and to ensure the rule framework is robust.

***The report considered by the StAG Subcommittee is attached below (Appendix 1).***

## 1 Recommendations

That the Lake Rotorua Stakeholder Advisory Group:

1. **Receives the report, *Discussion on Block versus Sector for Allocation and Short Term Trading and content.***
2. **Provides feedback on:**
  - i. **The use of blocks or sector as the basis for allocation of NDA; and**
  - ii. **How short term trading might operate.**

## 2 Discussion

### 2.1 Block versus sector allocation

At the Subcommittee meeting on 29 July 2015, discussion centred on how the initial allocation maths could give different Nitrogen Discharge Allowances (NDAs) at an individual a farm basis depending on the exact nature of the benchmarking process.

A key concern for farmers was that land management occurs on a “whole of farm” basis and it was clarified that the allocation (whether block or property) did not interfere with this ability. There is no intention to lock farm decisions into a block basis.

The Subcommittee supported on a consensus basis the block-based allocation. The key reasons for this were:

1. Greater consistency with how Rule 11 had been calculated
2. Better alignment with actual land use productivity
3. Property level NDA compliance and NMPs will remain at the property level, not blocks.

It is recognised that this element will need to be carefully communicated to avoid there being the view that management on a block basis is being required.

## 2.2 **Short term trading**

StAG has previously expressed a range of views on the desirability of short entitlement term trading. These have included that all nitrogen should be available for use by anyone, that short term trading should be available to meet the intermediary planning targets, and that it is not necessary.

The Council staff view was that short term trading would add too much complexity however this has been reconsidered. It is proposed that a simple “Short Term Entitlement” trading option is used but that this will need to protect the Incentives Scheme until 2022.

The draft rules contain the ability for properties and farming enterprises to trade to meet the managed reduction targets – for 2022 and 2027. Council will need has assurances on both the source and destination land. The trade will be managed via mutual controlled activity resource consent process (similar to current Rule 11D provisions).

The Subcommittee supported this approach on a consensus basis.

Note that since the Subcommittee meeting a review of the proposal has recommended aligning the language. The draft terms are:

- Managed Reduction Pathway – the pathway from the Start Point to 2032 NDA
- Managed reduction Targets – the 2022 and 2027 reduction targets
- Managed Reduction Offset – the traded nitrogen to meet a MRT.



**File Reference:** A2161778

**Report To:** Lake Rotorua Stakeholder Advisory Group Subcommittee

**Meeting Date:** 29 July 2015

**Report From:** Stephen Lamb, Acting Manager Water Policy

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## Discussion on Block versus Sector for Allocation and Short Term Trading

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### Executive Summary

This report presents information and current thinking on two areas of the rules framework for feedback from the Lake Rotorua Stakeholder Advisory Group Subcommittee. The two areas are:

- The use of blocks or sector as the basis for allocation of NDA; and
- How short term trading might operate

Feedback from StAG Subcommittee on the current Council staff position is useful to test the thinking and to ensure the rule framework is robust.

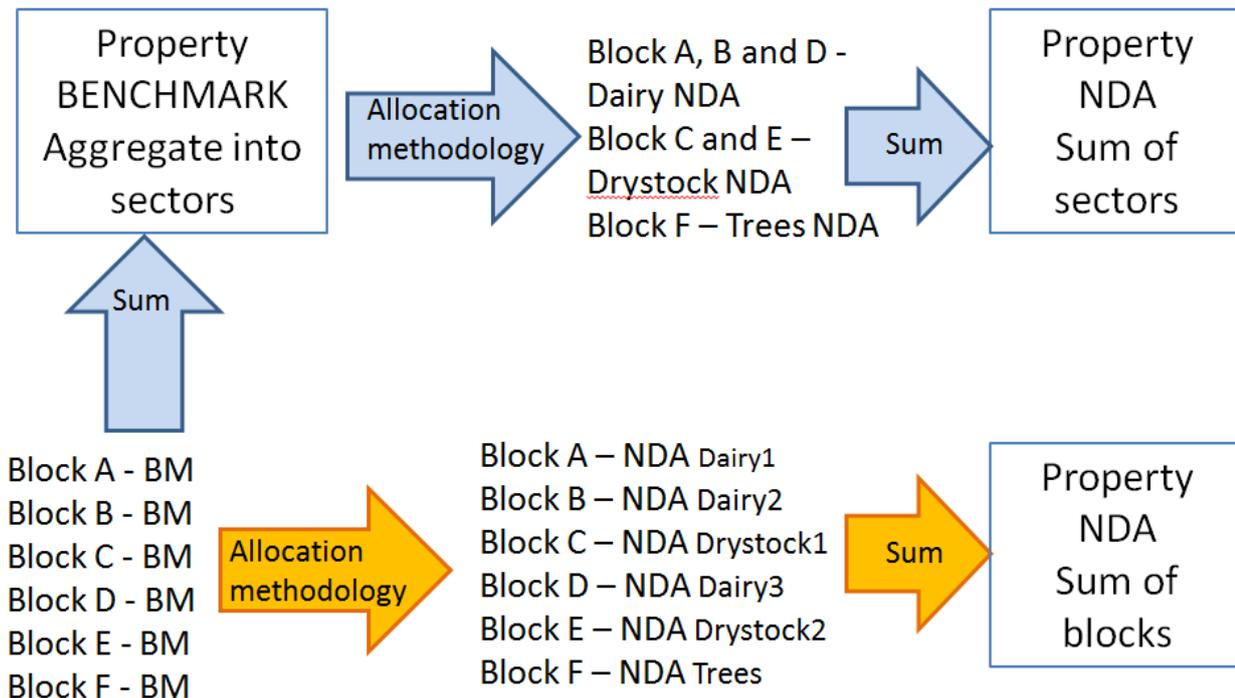
## 1. Recommendations

**That the Lake Rotorua Stakeholder Advisory Group Subcommittee:**

- 1 Receives the report, Discussion on Block versus Sector for Allocation and Short Term Trading and content.**
- 2 Provides feedback on:**
  - iii. The use of blocks or sector as the basis for allocation of NDA; and**
  - iv. How short term trading might operate.**

## 2. Blocks versus Sector as the basis for allocation

As discussed with StAG there is a need to specify within the rules exactly how NDA allocation will occur. At the last meeting there was some discussion about whether a block or sector basis should be used for allocation. The following diagram provides a high level look at the two approaches:



A key point around the approaches is that the management of the land will only ever occur at the property level.

Equally reporting will always be based on the block level through OVERSEER.

There are differences in the final amount of NDA for properties that is calculated but there is no change at the catchment level. There is some advantage to higher leaching land under a sector approach. The following tables show the differences in results:

## 2.1 Calculations

The following hypothetical example uses the agreed Dual sector averages (drystock 20.4 kgN/ha and dairy 46.6 kgN/ha) with ranges:

- drystock range of 16-32 kgN/ha
- dairy range of 39-52 kgN/ha.

### Dairy Farm (50 ha, equal 10 ha blocks)

	Block 1 BM 90 to NDA 52	Block 2 80 to 52
Block 5 30 to 39	Block 4 60 to 41.2	Block 3 40 to 39

### Dairy Farm (50 ha)

Block 1 (10 ha) 90 to 52
Block 2 (40 ha) 60 to 41.2

	Block	BM	Sector
1	520	900	412.2
2	520	800	412.2
3	390	400	412.2
4	412	600	412.2
5	390	300	412.2
	<b>2232</b>	<b>3000</b>	<b>2061</b>
<b>NDA</b>	<b>44.6</b>	<b>60 BM</b>	<b>41.2</b>

	Block	BM	Sector
1	520	900	453
2	1648	2400	1812
	<b>2168</b>	<b>3300</b>	<b>2265</b>
<b>NDA</b>	<b>43.4</b>	<b>66 BM</b>	<b>45.3</b>

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- **Drystock Farm (40 ha, equal 10ha blocks)      Mixed (100 ha)**

Block 1 BM 50 to NDA 32	Block 2 20 to 20
Block 4 13 to 16	Block 3 16 to 16

Block 1 Dairy 40 ha 50 to 32	Block 2 Drystock 10 ha 44 to 32
	Block 3 Drystock 50 ha 18 to 16

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	Block	BM	Sector
1	320	500	203
2	200	200	203
3	160	160	203
4	130	130	203
	<b>840</b>	<b>990</b>	<b>812</b>
<b>NDA</b>	<b>21</b>	<b>24.75 BM</b>	<b>20.3</b>

	Block	BM	Sector
1	1280	2000	1374
2	320	440	183
3	800	900	915
	<b>2400</b>	<b>3340</b>	<b>2474</b>
<b>NDA</b>	<b>24</b>	<b>33.4 BM</b>	<b>24.7</b>

## 2.3 Summary

The Council staff view remains that blocks should be used. The key reasons are:

- Blocks more accurately reflect actual nutrient loss
- Property management unaffected

- Information management is easier when trading, leasing or other changes to NDA are being monitored into the future
- Reporting is through OVERSEER which uses blocks
- All allocation information has been built up from blocks
- Provisional NDA being calculated on basis of blocks.

### 3 **Short Term Trading**

Short term trading has not been supported to date due to the following:

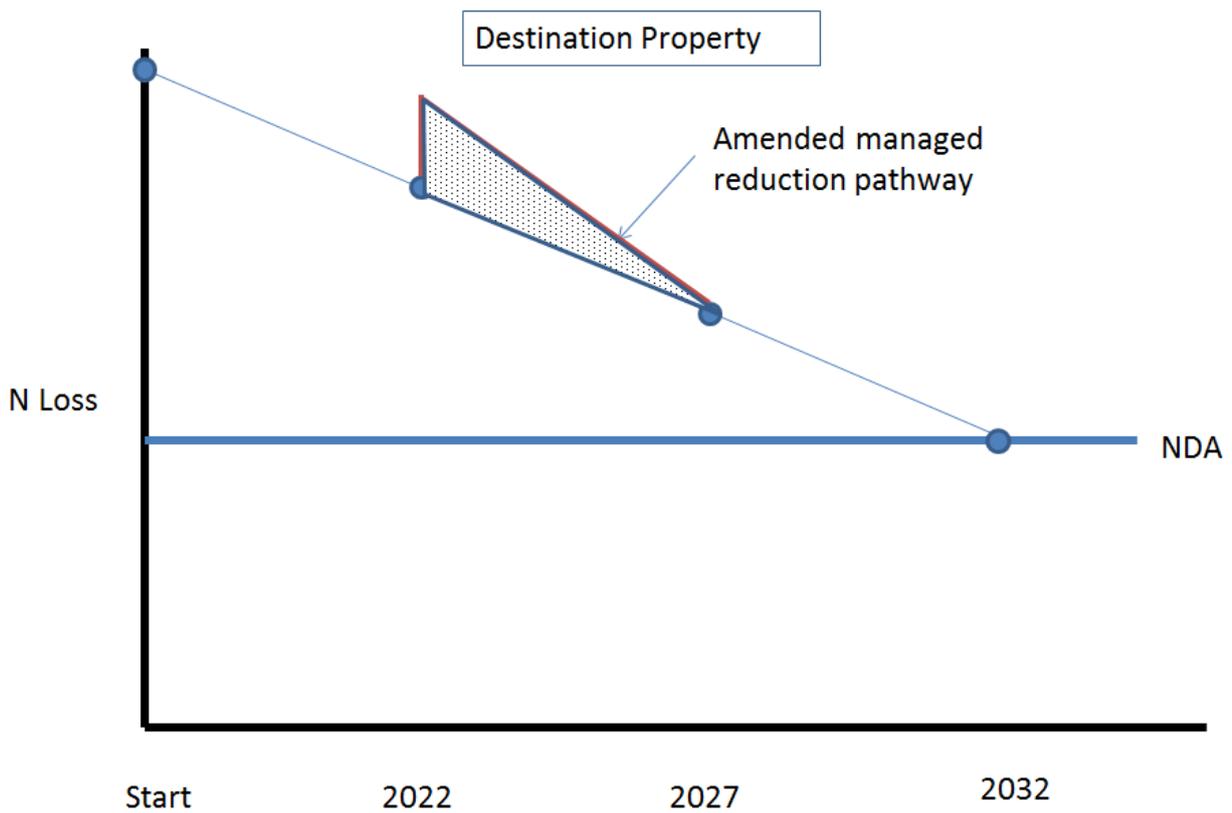
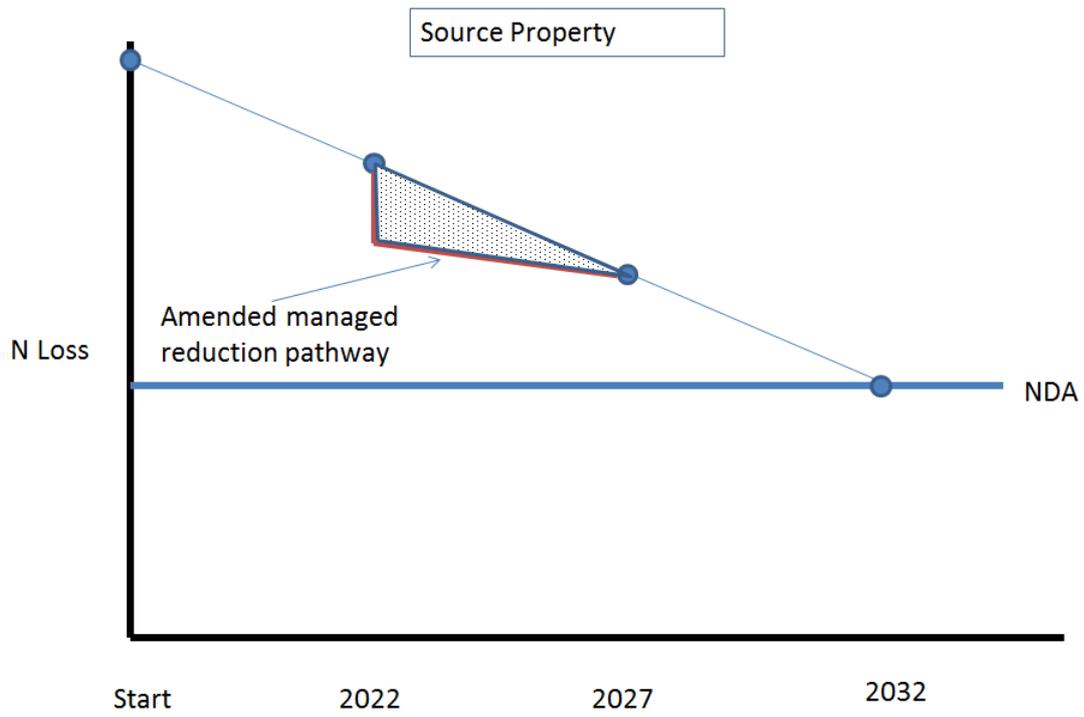
- It adds complexity
- It presents a risk to the Incentives Scheme if introduced in the period to 2022
- It could potentially allow properties to operate past their benchmarks.

A number of views have been expressed at StAG. These include that all nitrogen should be available for use by anyone, that short term trading should be available to meet the intermediary planning targets, and that it is not necessary.

Staff have explored the issue and are proposing that the ability to use additional nitrogen loss capacity to meet intermediary planning targets can potentially be included relatively easily in the rules framework.

The use of “short term trading” would require a new controlled activity consent and consequential changes to nitrogen management plans to recognise the new managed reduction pathway

Council would need assurances that the nitrogen for the destination land was offset from the source land. Various options were also looked at for how “short term trading” could be managed to not put the Incentives Scheme at risk such as introducing a rule that properties can’t go above their benchmarks but the simplest method is to prevent short term (and NDA) trading prior to 2022.



### 3.1 Summary

The Council staff view is that “short term trading” can be included within the rule framework. The current thinking is that this would be termed “addition of Nitrogen loss capacity to land” and that a controlled activity consent can be used to facilitate this.

## 4 NDA Trading

NDA trading has been discussed a number of times and is included within the rules framework. The following diagrams are presented here to show diagrammatically how NDA trading differs from “short term trading”. The 2022 timeframe would also apply to NDA trading and a controlled activity consent (as above) would also be required. The expectation would be that this “re-consenting” process would be as streamlined as possible and any charges would reflect this.

