

Organisation	Type	Format	Date	Attendees	CCC Markets team attendees	Discussion topics or other comments
NZ Climate Action Network (NZCAN)	NGO network	online	19/01/2022	multiple member organisations of NZ CAN	Eva Murray; Matt Smith	online meeting involving a range of CCC staff, to discuss the CCC's work programme with NZCAN. NZ ETS advice was discussed as part of this wider work programme discussion
MEUG	Industry group	online	4/03/2022	Ralph Matthes; Stuart Frazer	Eva Murray (also Antonia Burbidge from BITE team)	online meeting re CCC work programme, NZ ETS advice was highlighted as an upcoming issue.
MfE	Ministry officials	online	10/03/2022			process & timeline for CCC's advice
Jarden	market intermediary	online	28/03/2022	Nigel Brunel Scott Gulliver, David Hodson, Ted Jamieson (MfE); Michael Smith (MBIE)		Discussions based on: NZ ETS settings backgrounder for engagement meetings.pdf
MfE + MBIE	Ministry officials	online	28/03/2022		Paul Young, Vanessa Chalk	discussed differences identified between NZ ETS surrenders and GHG Inventory
Frazer Lindstrom	Consultant	online	29/03/2022	Stuart Frazer		Discussions based on: NZ ETS settings backgrounder for engagement meetings.pdf
MPI	Ministry officials	online	30/03/2022	Craig Elvidge	Paul Young, Vanessa Chalk	primarily discussed CCC's forestry ETS model (shared with Craig for review)
UK BEIS	UK government department	online	1/04/2022			operation of price stability mechanisms in each country's ETSs
Open zoom	public event	online	4/04/2022	Open Zoom 4 April 2022 NZ ETS settings Attendee Report	Eva Murray; Matt Smith	Open Zoom webinar 4 April Annual advice on NZ ETS unit limits & price control settings
Westpac	market intermediary	online	5/04/2022			Discussions based on: NZ ETS settings backgrounder for engagement meetings.pdf
Christina Hood / Compass Consulting	Consultant	online	8/04/2022	Christina Hood Scott Gulliver, David Hodson, Ted Jamieson (MfE); Michael Smith (MBIE)	Eva Murray; Matt Smith	primarily discussed options for how the NZ ETS settings may or may not accord with the NDC
MfE + MBIE	Ministry officials	online	8/04/2022		Paul Young, Vanessa Chalk	discussed differences identified between NZ ETS surrenders and GHG Inventory
Todd Energy	Company, NZ ETS participant	online	11/04/2022			Discussions based on: NZ ETS settings backgrounder for engagement meetings.pdf
Forest Owners Association	Industry group	online	12/04/2022	David Rhodes		Discussions based on: NZ ETS settings backgrounder for engagement meetings.pdf
Warren Parker, Forestry Ministerial Advisory Group	Industry representative	online	12/04/2022	Warren Parker		Discussions based on: NZ ETS settings backgrounder for engagement meetings.pdf
Permanent Forests / Forest Carbon Services	Consultant	online	12/04/2022	Ollie Belton		Discussions based on: NZ ETS settings backgrounder for engagement meetings.pdf
Carbon Match	market intermediary	online	13/04/2022	Lizzie Chambers		Discussions based on: NZ ETS settings backgrounder for engagement meetings.pdf
NZX	auction operator	online	14/04/2022	Shane Dinnan		Discussions based on: NZ ETS settings backgrounder for engagement meetings.pdf
Trustpower	company	online	19/04/2022			Discussions based on: NZ ETS settings backgrounder for engagement meetings.pdf
Genesis	Company, NZ ETS participant	online	20/04/2022			Discussions based on: NZ ETS settings backgrounder for engagement meetings.pdf
NZ Steel	Company, NZ ETS participant	online	27/04/2022			Discussions based on: NZ ETS settings backgrounder for engagement meetings.pdf
Fonterra	Company, NZ ETS participant	online	29/04/2022			Discussions based on: NZ ETS settings backgrounder for engagement meetings.pdf

Contact	Company, NZ ETS participant	online	3/05/2022			Discussions based on: NZ ETS settings backgrounder for engagement meetings.pdf
MBIE	Ministry officials	online	4/05/2022	Michael Smith	Paul Young, Sean Buchanan	discussed differences identified between NZ ETS surrenders and GHG Inventory
NZAS	Company, NZ ETS participant	online	5/05/2022			Discussions based on: NZ ETS settings backgrounder for engagement meetings.pdf
Air New Zealand	Company, NZ ETS participant	online	5/05/2022			Discussions based on: NZ ETS settings backgrounder for engagement meetings.pdf
Coal Action Network Aotearoa (CANA)	NGO	online	12/05/2022			Discussions based on: NZ ETS settings backgrounder for engagement meetings.pdf
emsTradepoint	market intermediary	online	20/05/2022			Discussions based on: NZ ETS settings backgrounder for engagement meetings.pdf
MBIE Just Transitions	Ministry officials	in person	7/06/2022	Terry Genet	Matt Smith; Briana Yee	Just transitions in the ERP; update on CCC's impacts work
BP Trading & Shipping	trading house	online	8/06/2022			Discussions based on: NZ ETS settings backgrounder for engagement meetings.pdf
Te Uru Rakau	Ministry officials	online	9/06/2022	Steven Cox	Eva Murray; Paul Young	Forestry in the NZ ETS
John Hura, NZFM	consultant	online	10/06/2022			Discussions based on: NZ ETS settings backgrounder for engagement meetings.pdf
MPI	Ministry officials	online	17/06/2022	Kristen Green; Nigel Searles	Eva Murray; Matt Smith	discussed MPI's policy work on permanent forests in the NZ ETS
MfE	Ministry officials	in person	17/06/2022	Scott Gulliver; David Hodson	Eva Murray; Matt Smith	progress on NZ ETS settings
MPI	Ministry officials	online	17/06/2022	Craig Elvidge	Paul Young, Vanessa Chalk, Zoe Mack	discussed MPI afforestation modelling and intentions survey, CCC analysis of forestry stockpile units and harvest liabilities

Climate Change Commission engagement on NZ ETS unit limits and price control settings

Our work on NZ ETS unit limits and price control settings

The Government is required to update the regulations for New Zealand Emissions Trading Scheme (NZ ETS) unit limits and price controls settings each year, to always provide a five-year outlook. This helps keep the NZ ETS aligned to emissions reduction targets and gives market participants information they need to help Aotearoa transition to a low emissions economy.

Acting as an independent advisor, the Commission reviews the NZ ETS unit limits and price control settings every year and provides recommendations to feed into this regulatory update. The Commission's first advice from July 2022 is available on our website: [here](#).

The Ministry for the Environment remains the lead policy agency for the NZ ETS. MfE is responsible for consulting on the NZ ETS settings after the Commission has provided its advice (their most recent consultation closed on 6 October). Updated regulations for the 2023-2027 period will be finalised by the government in late 2022.

We must provide our next advice in early 2023 as part of this annual cycle.

Why we'd like to talk to you

We are engaging with a range of relevant people and organisations to seek perspectives on how the market is operating. We are interested in your views on questions to improve our evidence base over time:

- What is your perspective on how the NZ ETS market is currently operating? What factors do you consider are most important in driving the current NZU price?
- How do you think the market will respond to the Government's decisions on the auction reserve price and the cost containment reserve?
- In our July 2022 advice on NZ ETS unit limits, we estimated that the scheme is oversupplied by around 49 million units. Do you have any feedback on the method we used to develop this estimate?
- If you are involved in forestry, how is the NZU price, the NZ ETS and wider policy and market developments affecting decisions about planting, harvesting, and managing NZU holdings?
- Do you have any other views about the NZ ETS unit limits and price control settings that you would like to share with us? For example, about how the NZ ETS might be impacting your community?

How your feedback will be used

Your input will help inform the Commission's understanding of the NZ ETS market and its management to support Aotearoa to meet its emission reduction targets. It will help Commission staff test ideas as well as identify and analyse issues when recommending settings for the NZ ETS.

This is not a public consultation process. We do not intend to cite or directly attribute your feedback provided to us. And this will not be the only opportunity to feed in views before updated settings are finalised. We understand that later in 2023, MfE would consult on the next settings, as part of the Government's process for considering the Commission's advice. At that point you will be able to make a formal submission for consideration before final policy decisions are made.

Our annual advice on NZ ETS unit supply & price control settings

4 April 2022

Eva Murray & Matt Smith



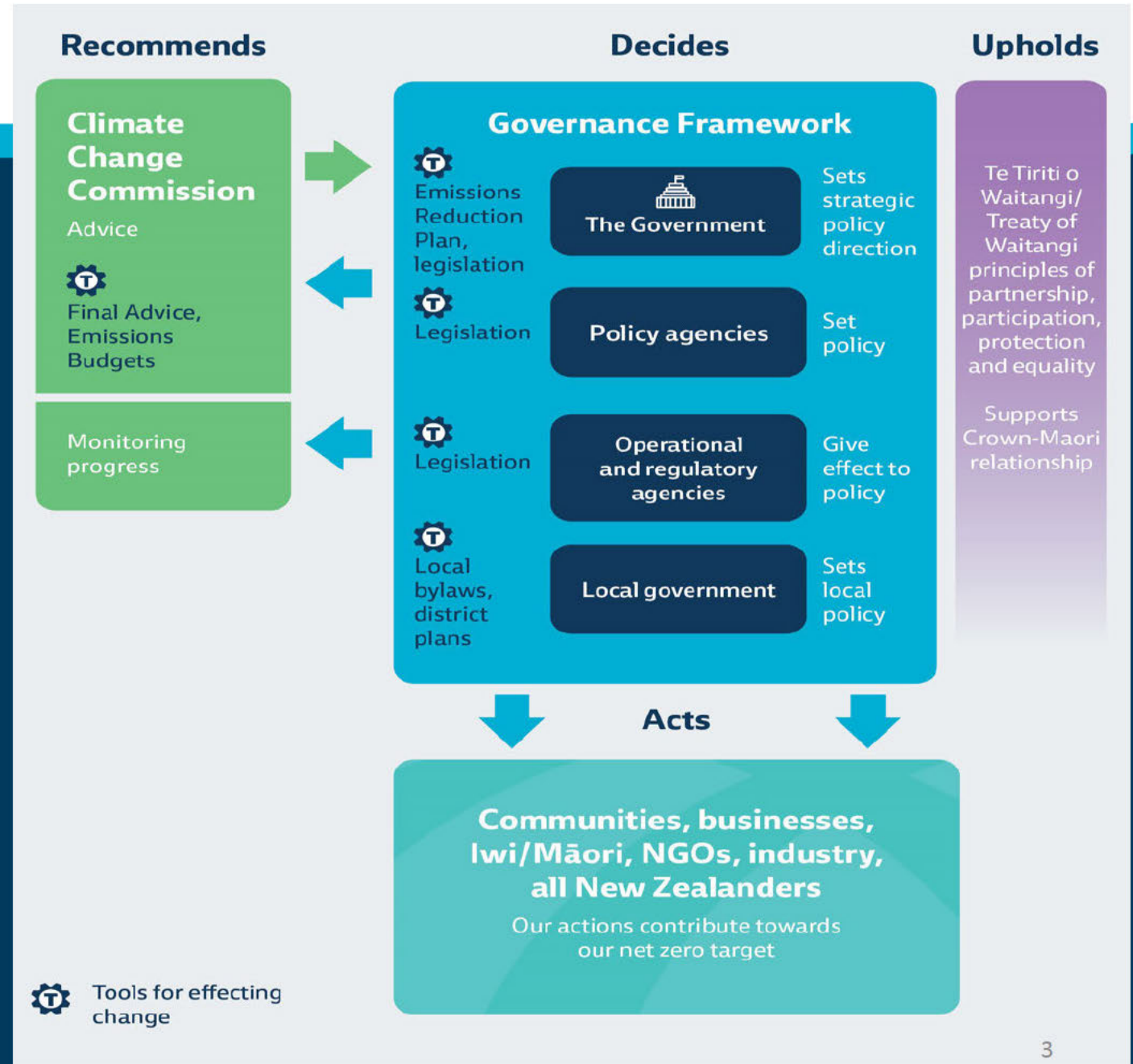
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Climate Change Commission

Introduction and agenda

- Our role
- ETS basics
- Our annual advice on NZ ETS settings
 - Unit limits
 - Price control settings
- Timeline and next steps
- Q & A

Our role

- Part of a broader policy development process.
- We provide independent, evidence-based advice.
- We have varied roles under the Climate Change Response Act.



Our role in respect of the NZ ETS

- **Now:**

- First annual advice on NZ ETS unit limits and price control settings

- **Future advice relevant to the NZ ETS:**

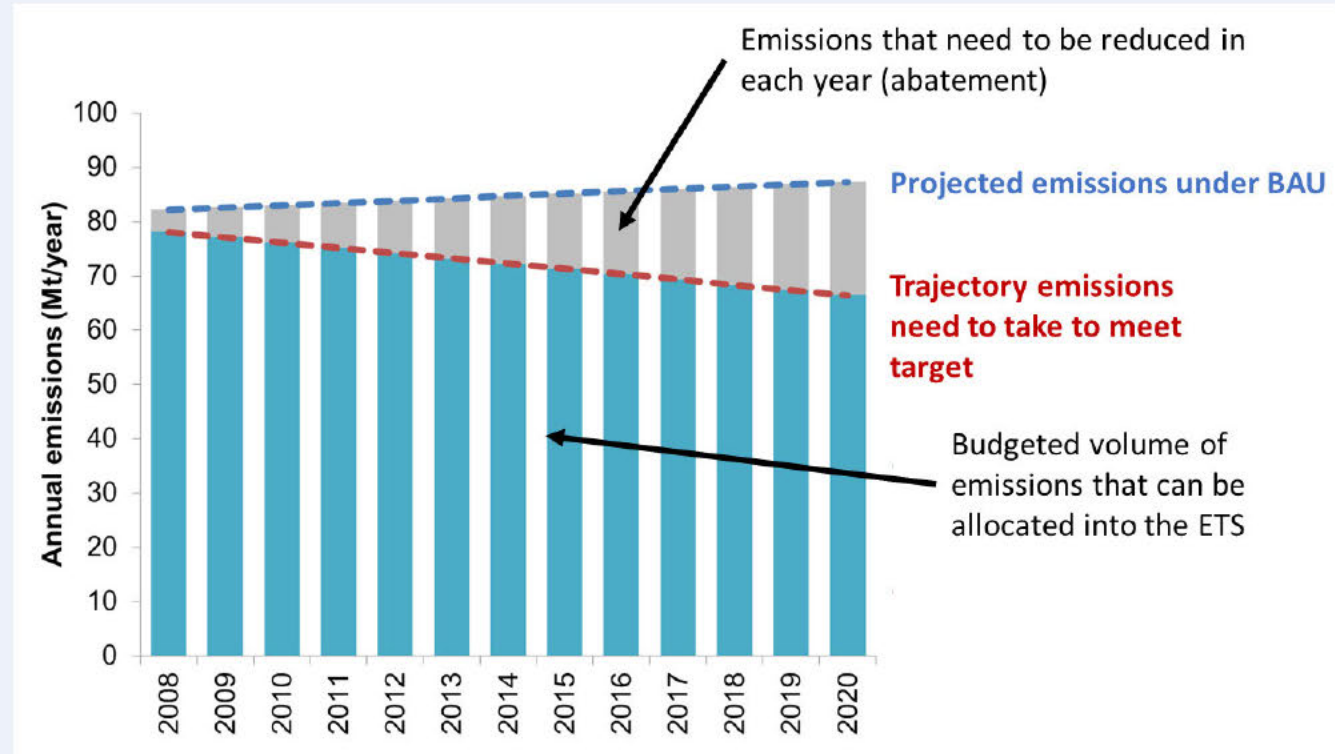
- **Annually:** advice on NZ ETS unit limits and price control settings
- **Dec 2023:** advice on direction of policy for the second emissions reduction plan (ERP for 2026-2030)
- **Mid-2024:** first statutory monitoring report on progress towards emissions budgets and implementation of the first ERP
- **If requested:** advice on increased or decreased phase out rates for industrial allocation

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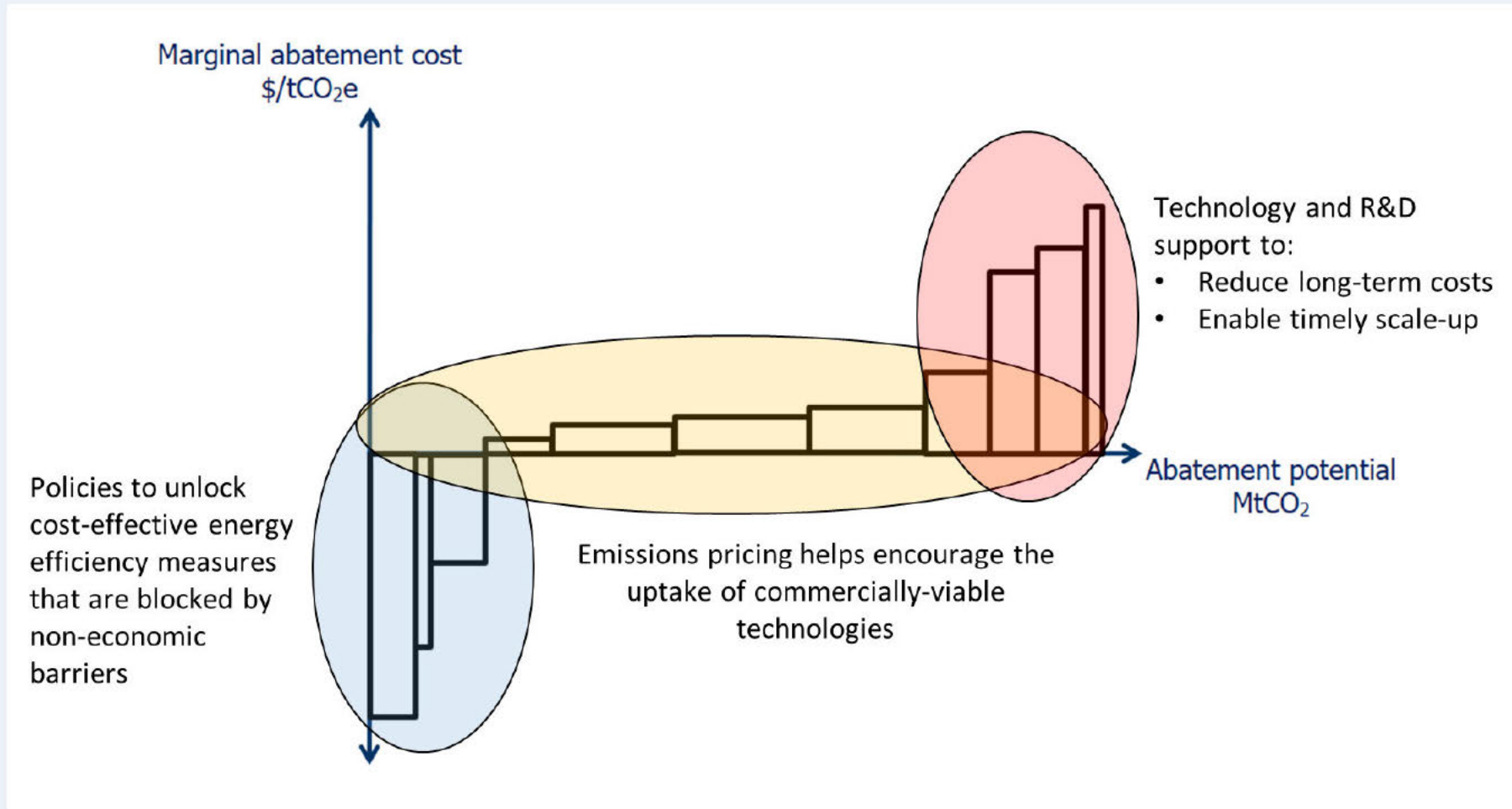
ETS Basics

Basic concepts of emissions trading

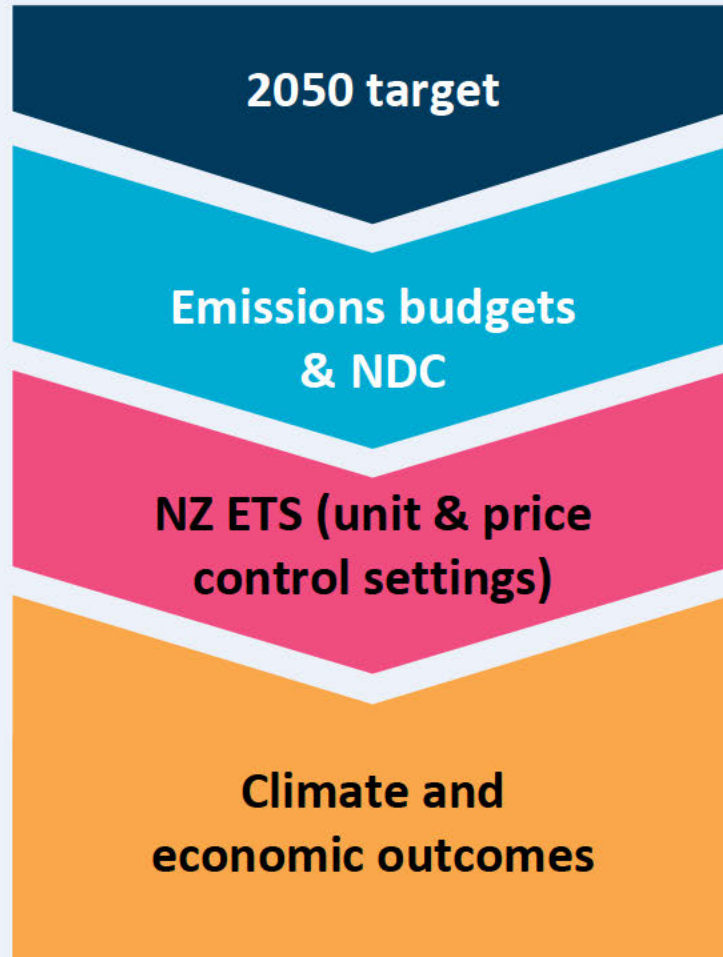
- A market created by the government to make low emissions practices and technology more attractive.
- Emissions are turned into a commodity (a “unit”) that can be traded in a market.
- Emitters in covered sectors must surrender units equivalent to their emissions each year.
- The government determines the quantity of units supplied into the market
- The quantity of units should relate to the relevant reduction target.
- The emissions price is determined by supply and demand.



Where can emissions pricing play a role?



Fitting the climate policy framework together



← The NZ ETS is one of the government's tools to reduce emissions. It acts as a 'messenger' between the reduction targets (2050 target, NDC, emissions budgets) and the economy.

It should mostly reflect decisions already taken when setting the 2050 target, NDC and emissions budgets

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Advice on NZ ETS unit limits and price control settings

What the Commission must deliver

- Recommendations on **unit limits**:

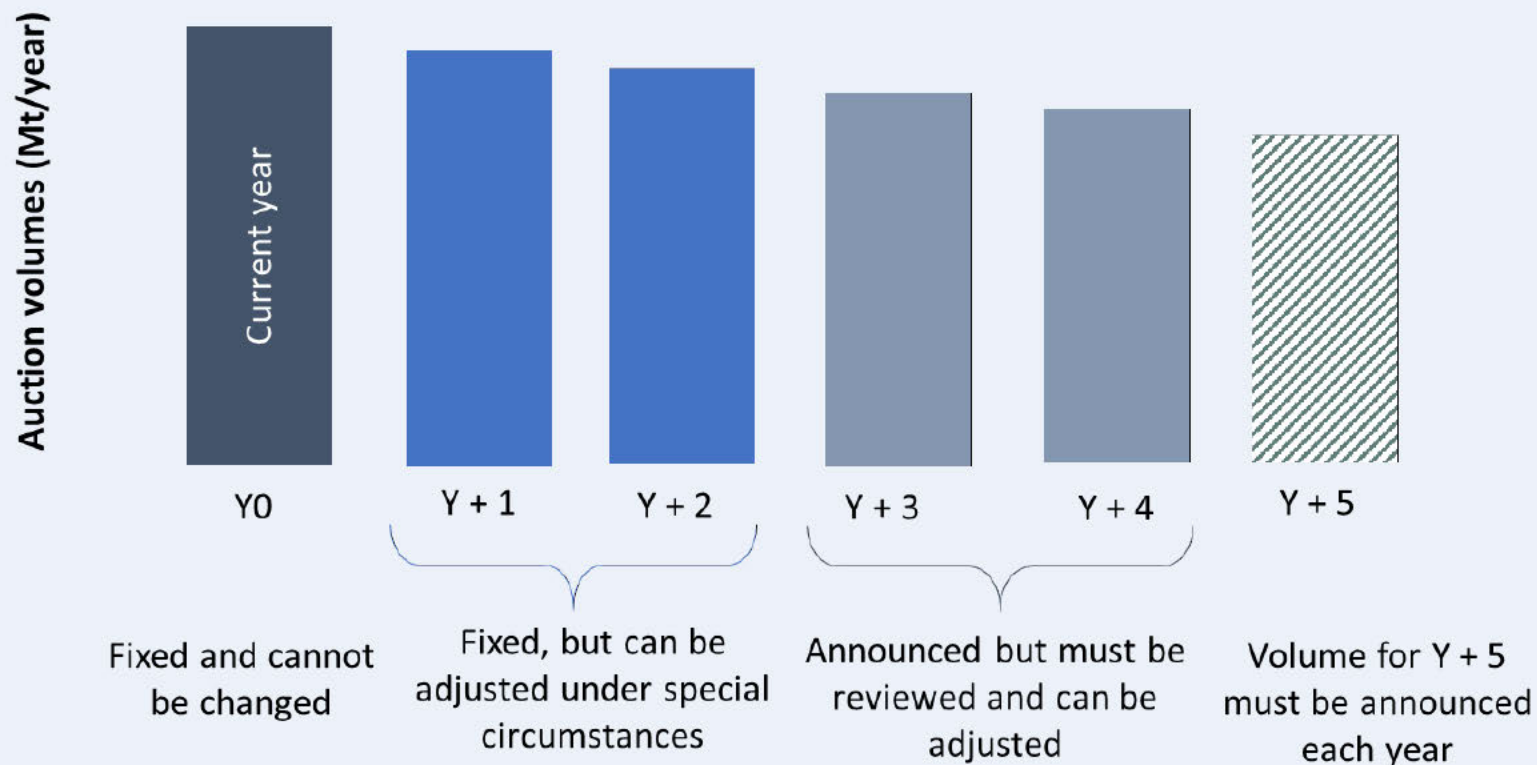
- An individual limit on New Zealand Units (NZUs) available by auction
 - An individual limit on approved overseas units
 - An overall limit on the sum of the individual limits and NZUs available by other means*
- Together, these limits serve to determine the amount of units that will be auctioned into the market

- Recommendations on **price control settings**:

- An auction reserve price – a minimum price at which units may be sold by auction, which may be zero
- A cost containment reserve (CCR) which releases a reserve amount of NZUs for sale at auction, if a trigger price is reached or exceeded by bidding at auction. This includes:
 - A reserve amount of NZUs for each trigger price, which may be a single reserve amount of zero
 - One or more trigger prices, unless the reserve amount is zero.

* this refers to NZUs supplied into the scheme via industrial free allocation and negotiated greenhouse agreements

Approach to managing NZ ETS settings



Special circumstances that may justify adjustments to years Y+1 and Y+2:

- A change to emissions budgets or nationally determined contribution
- The price control measures are triggered
- Significant changes to considerations
- A *force majeure* event

Any potential adjustments would need to be weighed up against how they may affect regulatory predictability

Considerations

- **5M** matters Commission must consider in all its work, if relevant:
 - scientific knowledge; technology; economic effects; social, cultural, environmental & ecological circumstances; distribution of costs & benefits; the Crown-Māori relationship, te ao Māori and specific effects on iwi and Māori; international responses to climate change.
- **30GC** matters specific to unit limits and price control settings:
 - Accordance with emissions budgets, NDC and the 2050 target
 - Projected trends of GHGs
 - Proper functioning of the NZ ETS
 - International climate change obligations & instruments or contracts for offshore mitigation
 - Forecast availability and costs of ways to reduce GHGs

Additional matters only for price control settings:

- Impact of emissions price on households and the economy
- International emissions prices
- Inflation

What does this look like?

Our recommendations for the 2023–2027 will resemble the format of the settings currently specified in regulations for 2022–2026:

	2022	2023	2024	2025	2026
NZUs available by auction (millions)	26.3	25.6	25	23.3	21.7
Approved overseas units (millions)	0	0	0	0	0
Overall limit on units (millions)	34.5	34.5	32.9	29.6	27.9
Minimum auction reserve price	\$30	\$32.10	\$34.35	\$36.75	\$39.32
Trigger price for cost containment reserve (CCR)	\$70	\$78.40	\$87.81	\$98.34	\$110.15
Reserve amount of New Zealand units (millions)*	7	7	7	6.8	6.7

The rationale for the recommendations will be outlined in a report.

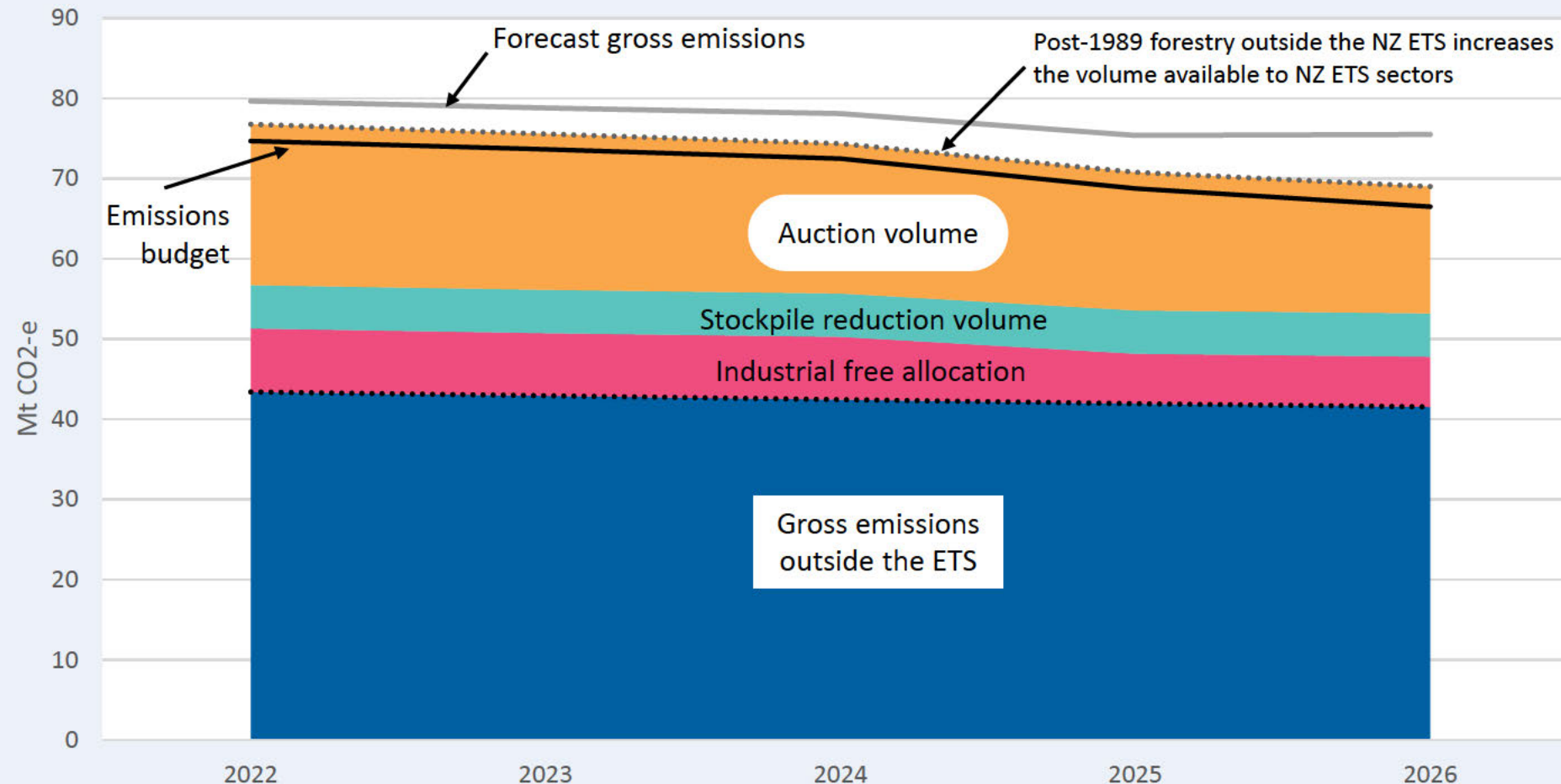
3 Unit limits

Unit limits: Six step method

Developed and used by MfE for the past two years:

1. Set the NZ ETS cap by allocating the emissions budget to NZ ETS covered and non-covered sectors
2. Make technical volume adjustments
3. Account for free NZU allocation volumes
4. Set reduction volume to address unit oversupply
5. Set approved overseas unit limit
6. Calculate the remaining volume available to auction

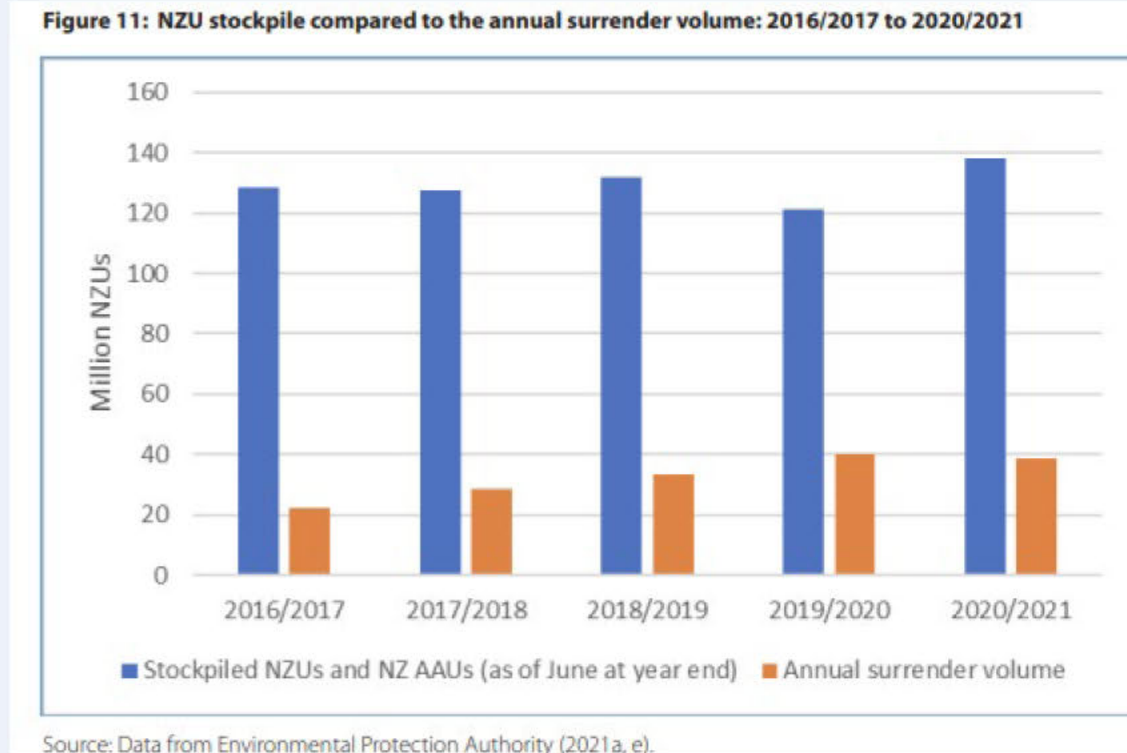
Unit limits: Applying the six-step method



This graph is based on the existing NZ ETS settings, to show how the 6-step method can be applied

Unit limits: current NZ ETS context

- There is a large amount of units banked in private accounts – over 150 million



Source: Motu Economic and Public Policy Research

- By comparison, in its ERP consultation document the government estimated that 7.7 Mt CO₂e further abatement is needed to meet its proposed first emissions budget

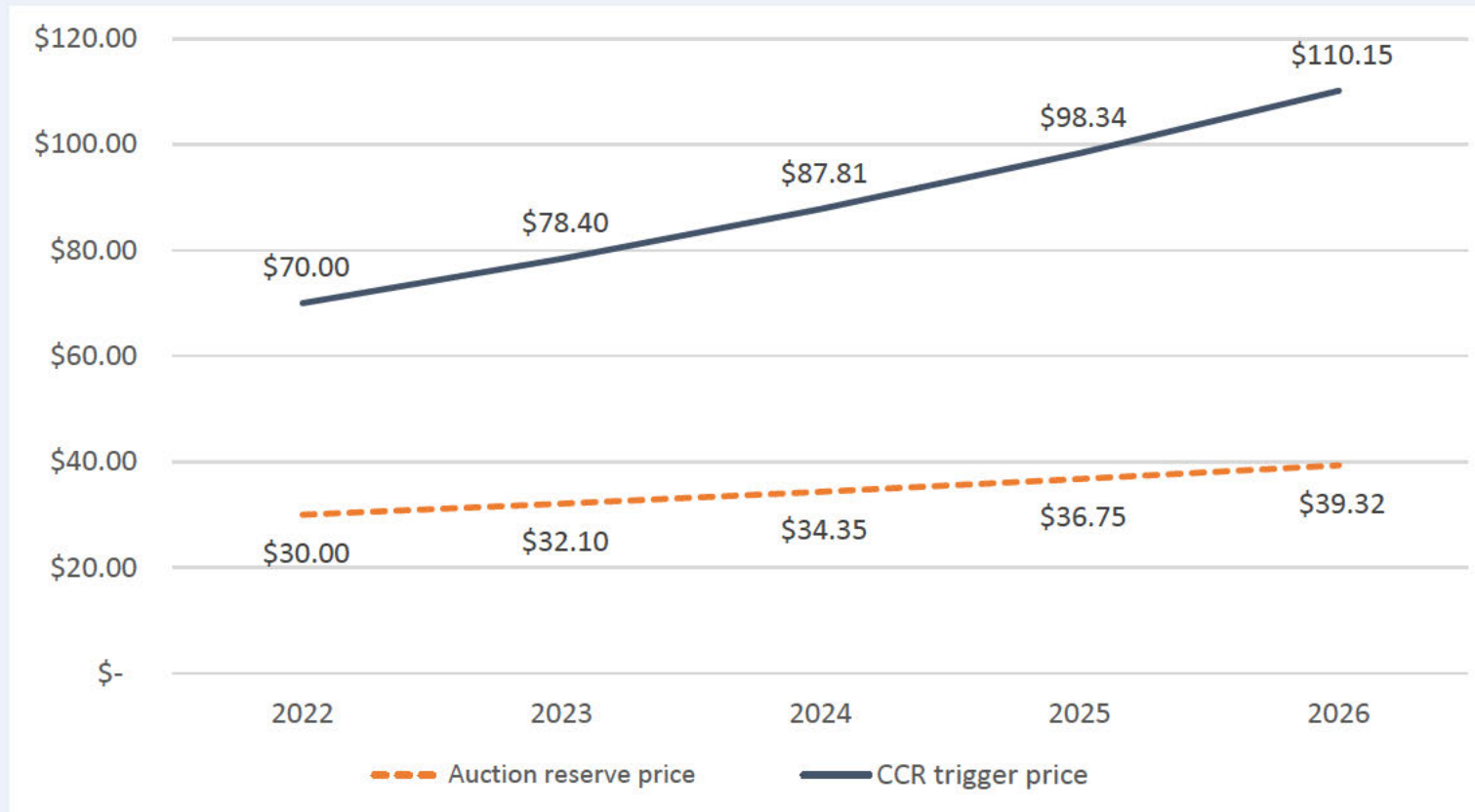
Unit limits: issues

- Improving reconciliation between emissions estimated in the NZ ETS and the national Inventory, to inform technical adjustments
- How to adjust for changes since previous forecasts
- How the emissions budget is allocated between NZ ETS covered and non-covered sectors
- How much and how fast to aim to reduce the amount of banked units by reducing auction volumes

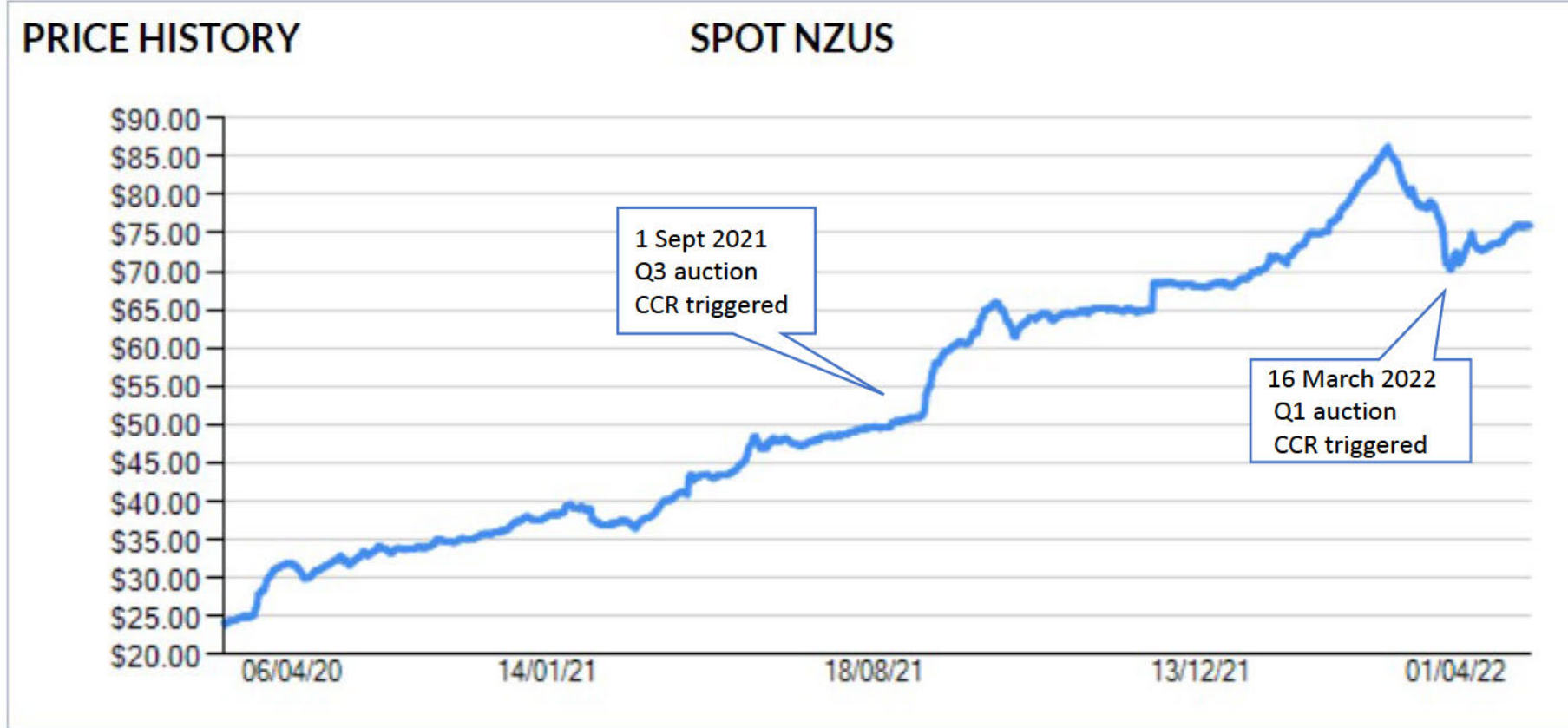
4 Price control settings

What are the NZ ETS price controls?

- Safety valves intended to manage risks of price extremes in either direction



Recent NZU secondary market price path



Price control settings: issues

As the cost containment reserve (CCR) has been triggered, there is a need to consider its design and operation:

- Trigger price/s
 - Maintaining a single trigger price or moving to tiers of two or more trigger prices
 - The trajectory of the trigger price/s
 - Potential anchoring of market participants' price expectations by the trigger price
- Reserve volume
 - Determining the reserve volume, including its relationship to the stockpile reduction volume and cap
 - Risk of potential need to “back” units if reserve volume released

Timeline and next steps


31 May:	Deadline for the Government to announce final emissions budgets and the emissions reduction plan
July:	Commission provides advice on NZ ETS unit limits and price control settings
TBC:	MfE consults on proposed NZ ETS unit limits and price control settings
December:	Regulations must be finalised for the 2023-2027 period

Questions?



Want to get in touch?
hello@climatecommission.govt.nz


Out of scope



Insights from engagement

186. In our engagement we have sought to develop a better understanding of different market participants' price expectations and behaviour in relation to holding or selling units.

Out of scope



187. We heard that there is a widely held expectation that emissions prices will rise significantly over coming years. A range of factors appear to be influencing this view, although it is difficult to draw firm conclusions about the relative importance of each. Some themes included:

- Strong confidence in the Government's commitment to climate action and intent to increase policy stringency in future. The cost of decarbonising was more often cited than the cost of afforestation as a driver of expectations. Some cited the emissions values from ITN and/or the CCR price trigger levels and trajectory as providing a credible guide as to where the Government wants NZU price to go and that it would act to promote this.
- The increase in NZU price so far, as well as increases to prices in other ETS internationally, are potentially feeding into bullish sentiment and increases to speculative demand.
- Regulatory uncertainty, with changes to the NZ ETS being rolled out or revisited and lack of clarity over complementary policies and the ERP. This increases the risk and therefore cost of investing in abatement.
- The NZ ETS is a relatively shallow, immature market with limited risk management tools. This may be contributing to risk averse behaviour by some compliance participants.

188. It is possible that these expectations will not materialise, as circumstances could arise to moderate NZU price rises over time.

189. For example, while the Government has signalled that it intends to implement restrictions on the ability of exotic permanent forests to register in the NZ ETS, there is still potential for a large amount of relatively low-cost afforestation in Aotearoa. Furthermore, at current carbon prices it is economically attractive to not harvest existing post-1989 production forests that are already in the NZ ETS on stock change accounting.¹⁷ If foresters take up this option at scale, it could free up a significant number of units. We also discuss this issue in Part B where we address unit oversupply.

190. Discussions also indicated that the CCR trigger price and trajectory may be having a relatively strong anchoring effect on some participants' price expectations. This is exacerbated by the limited availability of timely, relevant market information and analysis, including about why the NZ ETS price may not follow the CCR price path in reality. This makes it difficult for participants to form judgements on the long-term value of NZUs based on supply and demand fundamentals. In its absence, the CCR trigger prices may form the clearest signal available.

Out of scope