

19-D-01143

s 9(2)(a)

Environment and Conservation Organisations of Aotearoa New Zealand

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Dear s 9(2)(a)

Thank you for your email of 5 June 2019 and subsequent phone conversation. In your email and the phone discussion, you noted you are seeking information related to the Ministry's Estimates documents, specifically:

What does the \$47.5m impairment of debt relate to?

What is the loss on sale of \$189.3m?

What is the \$551m Allocation of NZUs appropriation made up of?

Which industries receive allocation of NZU's?

Due to the nature of the information you are requesting, we are providing a formal response under the Official Information Act 1982 (the Act). Please note that if you are requesting official information in the future we will also need to respond under the provisions of the Act.

As an initial clarification the New Zealand Emissions Trading Scheme (NZ ETS) appropriations are upper limits on spending or expenses related to the NZ ETS. There is some uncertainty relating to these appropriations, partly due to the (unknown) market price of New Zealand Units (NZUs), actual vs forecast emissions and removals, and (unknown) participant choices (e.g. decisions regarding voluntary participation or participants electing to use the fixed price option).

What does the \$47.5m impairment of debt relate to?

This appropriation reflects the potential that some participants may not meet their obligations under the NZ ETS if they go into receivership or liquidation. It allows for non-recovery risk should any participants go into receivership/liquidation, while regulators (e.g. the Environmental Protection Authority) are still able to take action to try and recover the debt. The appropriation figure is based on approximately 5% of eligible NZUs. Despite the \$47.5m appropriation, actual spend over last 8 years has been approximately \$1.8m in total.

What is the loss on sale of \$189.3m?

The \$189m Loss on Sale of NZU's appropriation recognises the potential loss on sale of NZUs should the market price exceed the fixed price option (FPO) of \$25 per NZU. The fixed price option allows a participant to pay the Crown \$25 in lieu of surrendering an NZU. In accordance with generally accepted accounting practice, if a participant elects to use the \$25 fixed price option while the NZU market price is above \$25, the Crown must recognise a loss equal to the difference. This appropriation is based on \$5 per unit and extensive

fixed price option usage. Actual expenses against this appropriation are uncertain, and would depend on the market price and participant's choices regarding the FPO.

What is the \$551m Allocation of NZUs made up of?

The \$551m Allocation of NZUs appropriation covers the total allocation (i.e. transfer) of NZUs to market participants. For example, it includes industrial allocation of NZUs for emissions intensive, trade exposed activities (provided to avoid the risk of emissions leakage) as well as NZUs that are provided as entitlements to registered post-1989 forestry and Permanent Forest Sink Initiative participants (in recognition of increases in carbon stored in these forests).

Which industries receive allocation of NZU's?

Allocation of NZUs is provided to businesses that undertake "emissions intensive, trade exposed" activities to protect against carbon leakage. The Environmental Protection Authority's website provides information on industrial allocation, including rules for eligibility and a list of decisions where the companies and the volume of industrial allocation provided are published: <https://www.epa.govt.nz/industry-areas/emissions-trading-scheme/industrial-allocations/>

If you have any queries about this, or would like to request any further information in the future, please feel free to contact our Executive Relations team by email at ministerials@mfe.govt.nz.

Yours sincerely



Sharon Kerry
Chief Financial Officer

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the Official Information Act 1982