

# New Zealand Emissions Trading Scheme interim auction monitor report

7 December 2022 auction



Ministry for the  
**Environment**  
*Manatū Mō Te Taiao*



**Te Kāwanatanga o Aotearoa**  
New Zealand Government

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# Introduction and purpose of this report

This report is produced by the Ministry for the Environment (the Ministry) acting in the role of the interim auction monitor for the eighth scheduled New Zealand Emissions Trading Scheme (NZ ETS) auction, the final auction for the year, held on 7 December 2022.

Auctioning of New Zealand Units (NZUs or 'units') is currently scheduled at quarterly intervals throughout the year as prescribed by the Climate Change Response (Emissions Trading Reform) Amendment Act 2020 and the Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020.

The purpose of this report is to record and provide details on the results of the auction, to present a comparison with previous auctions, and to provide an assurance that the auction was conducted properly and in accordance with the applicable rules and laws.

The next auction, the first of 2023, is scheduled to be held on 15 March 2023.

# Background

Following the 2015/16 review of the NZ ETS, the Government agreed to introduce auctioning of NZUs to align the supply of units in the Emissions Trading Scheme with New Zealand's climate change targets.<sup>1</sup> Further public consultation on auctioning regulations took place between November and December 2019.<sup>2</sup>

Following extensive regulatory and legislative development and an open market procurement process, an auction operator was appointed to run regular scheduled auctions through the NZX Managed Auction Service.

The first auction occurred on 17 March 2021.

This report concerns the eighth scheduled auction which occurred on 7 December 2022.

## Auction monitor to provide information on auctions

The appointment of an auction monitor requires regulations to be made prescribing the appointment process and the functions of the auction monitor.

Until the required consultations and regulation development have been concluded to appoint an auction monitor, the Minister of Climate Change has agreed that the Ministry for the Environment will perform the function of the auction monitor, referred to in this document as interim auction monitor (IAM).

The IAM function is performed independently of the auction operator and of the Ministry for the Environment policy team responsible for developing the regulations for the auction monitor and auctioning.

## (Interim) auction monitor's functions

Based on feedback from the 2019 consultation, the Government agreed that the auction monitor should:

- publish certain information about each auction as soon as is practical following the auction
- publish a report on the outcome of each auction before the next auction occurs
- review the auctioning system after the first year and every subsequent two years.

Cabinet has agreed that the auction monitor must publish a report containing prescribed information from each auction and on the outcome of each auction prior to the subsequent auction occurring [DEV-20-MIN-0047].<sup>3</sup>

The auction operator publishes information about each auction shortly following the close of the auction, which can be read in conjunction with this report.

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<sup>1</sup> <https://environment.govt.nz/assets/Publications/amendments-to-ccra-tranche-1-cab-18-min-0606.01.pdf>

<sup>2</sup> <https://environment.govt.nz/publications/reforming-the-new-zealand-emissions-trading-scheme-rules-for-auctioning-summary-of-submissions/>

<sup>3</sup> <https://environment.govt.nz/assets/Publications/DEV-20-MIN-0047-Minute.pdf>

# Auction information: 7 December 2022

## Auction metrics

Table 1 provides relevant metrics of the auction. Additional details are presented graphically in the appendix.

**Table 1 Metrics for NZ ETS auction held on 7 December 2022**

Number of participants	23
Number of successful participants	21
Volume available at auction (No CCR units available in this auction)	4,825,000
Volume of NZU sold	4,825,000
Volume of NZU Bid for	6,162,000
Average Bid Size	28,930
Average volume bid per participant	267,913
Average volume won per successful participant	229,762
Average number of bids per participant	9
Total number of bids submitted (not including withdrawn bids)	213
Number of bids withdrawn	8
Number of successful bids	152
Aggregated 'top 5' participants volume (aggregated successful bids) as a percentage of total units sold	88
Herfindahl–Hirschman Index (measure of market concentration by volume purchased 'top 10')	0.24
Percentage of bidders with mandatory compliance obligations	62

## Commentary on the results of the auction

The eighth NZ Emissions Trading Scheme auction and the fourth of 2022 was successfully conducted on 7 December 2022. The June auction resulted in the sale of the remainder of the annual cost containment reserve volume for 2022. Consequently, no additional (CCR) units were available for sale in the December (nor September) auction.

All 4,825,000 units scheduled for sale were sold in the December auction.

The December auction was similar to the previous auction in terms of bid volume, neither auction having access to CCR units. Success metrics, the number of successful participants and the percentage of winning bids, remain high.

A similar number of entities participated in the auction to those of the previous two auctions with 21 of the 23 participants being successful in their bids.

Auction 'bid volume' (the total number of NZUs bid for) was again significantly down from the average figure but sufficiently high to result in cover ratio of 1.28.

The market concentration index of 0.24 returned to more familiar territory from the low in September, indicating a tightening in market concentration. The 'top five' participants purchased 88 per cent (the 'top 10' won 96 per cent) of the sold volume.

62 per cent of the successful participants registered as having compliance obligations under the Emissions Trading Scheme were successful in securing most, if not all of their bid volumes. Participants registered in the ETS acquired 28 per cent of the available auction volume.

As usual, it is highly likely that several of the larger players represent multiple third parties.

The relationship between the secondary market carbon price and the auction clearing price remains relatively consistent.

## The auction clearing price

The auction operator is required to publish the clearing price following the auction.

The auction clearing price was correctly interpreted as NZ\$79.00. This is slightly down on the previous auction (NZ\$85.40) and consistent with an interim clearing price (the clearing price in the absence of available CCR volume) of NZ\$78.00 in June.

The CCR trigger mechanism (NZ\$70.00) was breached, however, as noted, no CCR volume was available in the December auction, the annual allocation of CCR volume having been expended across the March and June auctions.

***The auction clearing price was slightly below the secondary market closing pricing preceding the auction, consistent with previous auction results.***

## The confidential reserve price

The Climate Change Response Act enables the Minister of Climate Change to set a methodology for calculating a confidential reserve price for NZ ETS auctions. The confidential reserve price has the purpose of preventing NZUs from being sold at auction at a price significantly below the secondary market price. If the auction clearing price is less than the confidential reserve price, the auction will not sell any NZUs. Unsold NZUs will be rolled forward to be sold at the next auction in the same calendar year.

The legislation requires that the confidential reserve price cannot exceed the trigger price(s) for the cost containment reserve.

***The IAM independently confirms that the calculated confidential reserve price was not directly influential on the distribution of NZUs, nor the auction result.***



## Resolved tied bids

If more than one bid sets the clearing price, those bids are referred to as tied bids. If all tied bids together bid for more units than are left, each tied bid is allocated a proportional share of the remaining units, subject to rounding rules. Bids are only accepted in multiples of 100 units from 500 units (the lot size and minimum bid respectively). Units are allocated to bids in multiples of lot size. Therefore, when tied bids occur and the operator calculates proportional shares, they apply the following rounding rules:

- the number of units allocated to a tied bid, if not a multiple of the lot size, is rounded down to the nearest 100 units (this may include being rounded down to zero)
- if unallocated units remain after tied bids are awarded their proportional share (rounded to the nearest 100 units), any remaining lots are randomly allocated to the tied bids, but only up to their original bid amount.

There were three tied bids at the clearing price of NZ\$79.00 in the December auction.

***The IAM has examined how units have been allocated among bids and confirms that the auction operator has correctly applied the allocation and rounding rules.***

## Cost Containment Reserve (CCR)

The cost containment reserve (CCR) mechanism provides for an additional volume of NZUs to be added to the auction volume if the auction clearing price is equal to or exceeds the CCR trigger price. Currently, there is only one trigger price level in an ETS auction. The cost containment reserve trigger price for the December 2022 auction was set at NZ\$70.00 per NZU, as previously published.

The available CCR volume to be shared across all four auctions in 2022 is 7.0 million NZUs.

Both the CCR trigger price and available volumes are set by regulation, though both may be reviewed and are subject to change. The available annual auction volumes and auction dates are published in October of the preceding year by the Ministry for the Environment.

***The CCR trigger price was breached in the December 2022 auction, though no units of CCR reserve volume were available for sale. The CCR was expended in the previous auctions of 2022.***

# Commentary on the auction operation

## General

The auction operator has confirmed that the auction ran smoothly with no outages or delays. The Ministry for the Environment has similarly confirmed a successfully conducted auction.

***The IAM has no reason to believe that the auction rules were not followed.***

## Collateral and settlement

There were no significant issues noted with the receipt of collateral or the timely payment of invoices for settlement. A small number of participants continue to deposit collateral at the very last minute. Banking verification processes for these participants were completed in this instance, but those buyers risked exclusion from participation in the auction.

All invoices for successful participants were settled within four working days of the auction as required.

Uncommitted collateral was returned to participants by the end of the day following the auction.

Cash was the main instrument for lodging collateral, though six participants preferred to submit Standby Letters of Credit (SBLC) for lodging non-cash collateral.

All NZUs were transferred to successful bidders' NZ ETS Registry accounts on the same day as the invoice settlement.

***The IAM notes that all participants lodged collateral and provided full payment for their purchases within the prescribed timeframes. All successful participants received their allocated units within the prescribed timeframe.***

# Feedback on the auction monitoring report

Please send any information about the ETS auctions to the interim auction monitor at [etsconsultation@mfe.govt.nz](mailto:etsconsultation@mfe.govt.nz) for consideration in future reports.

# Appendix

## Graphical presentation of historical auction metrics

### Legend for graphs in this report

Dec. 21 Auction 4, held on 1 December 2021

Mar. 22 Auction 5, held on 16 March 2022

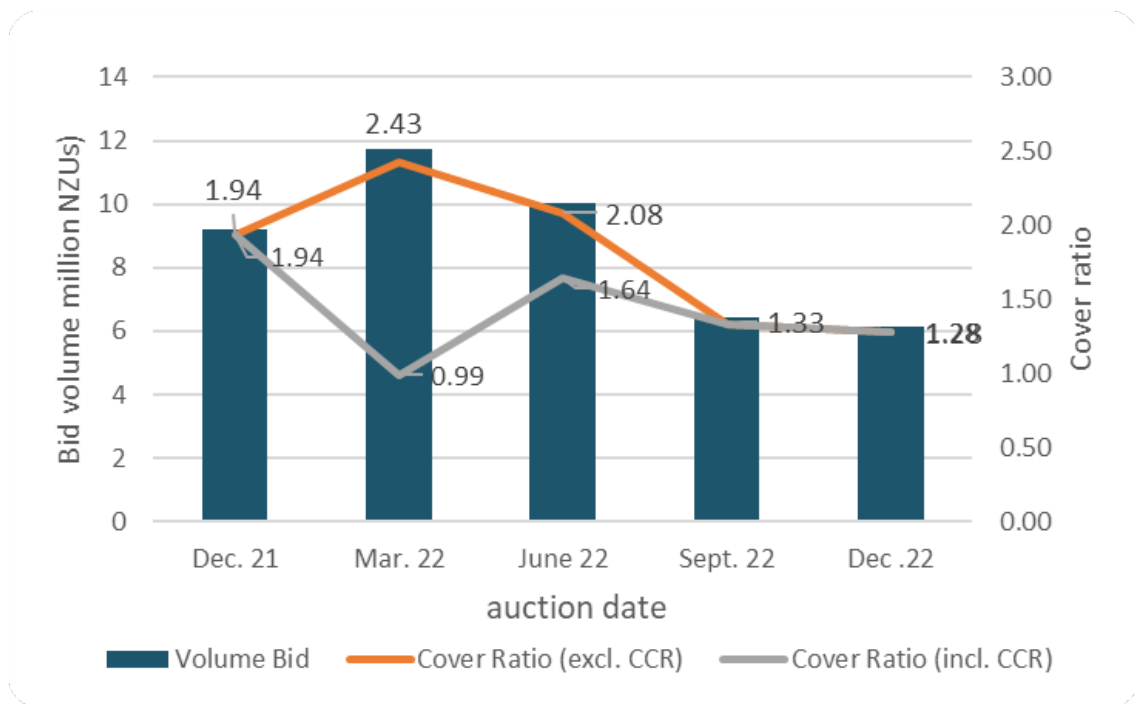
June 22 Auction 6, held on 15 June 2022

Sept. 22 Auction 7, held on 7 September 2022

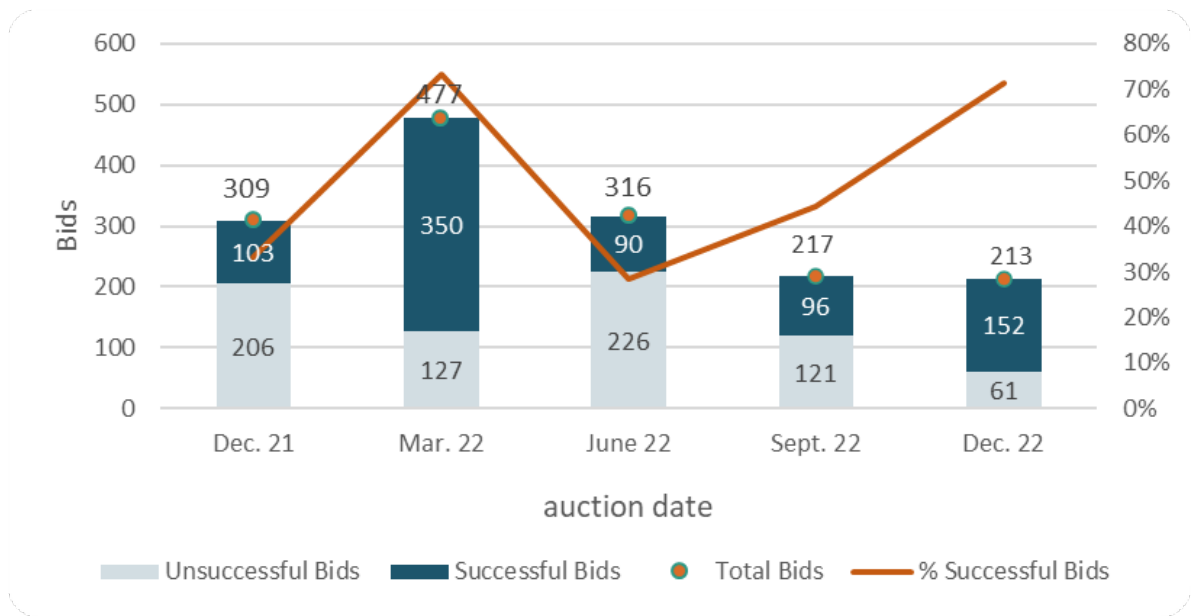
Dec. 22 Auction 8, held on 7 December 2022

The most recent auction and four trailing auctions will be presented in this appendix.

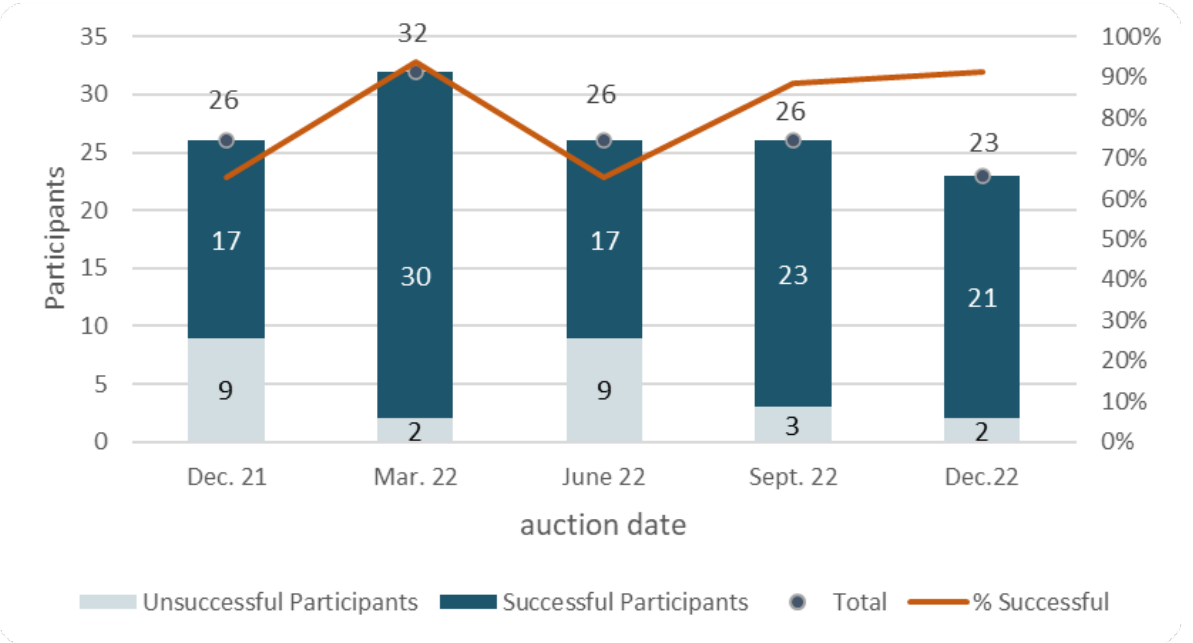
Figure A.1 Volume of NZUs bid for and Cover Ratio in each auction



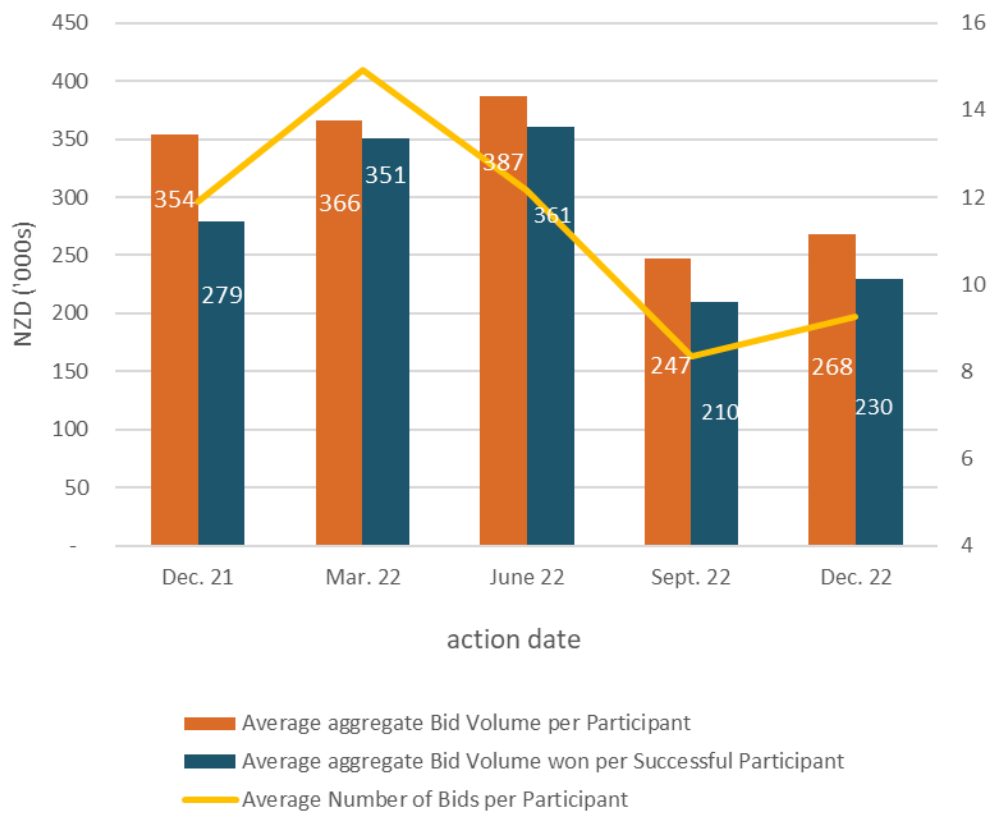
**Figure A.2 Total number of bids in each auction**



**Figure A.3 Participant numbers in each auction**

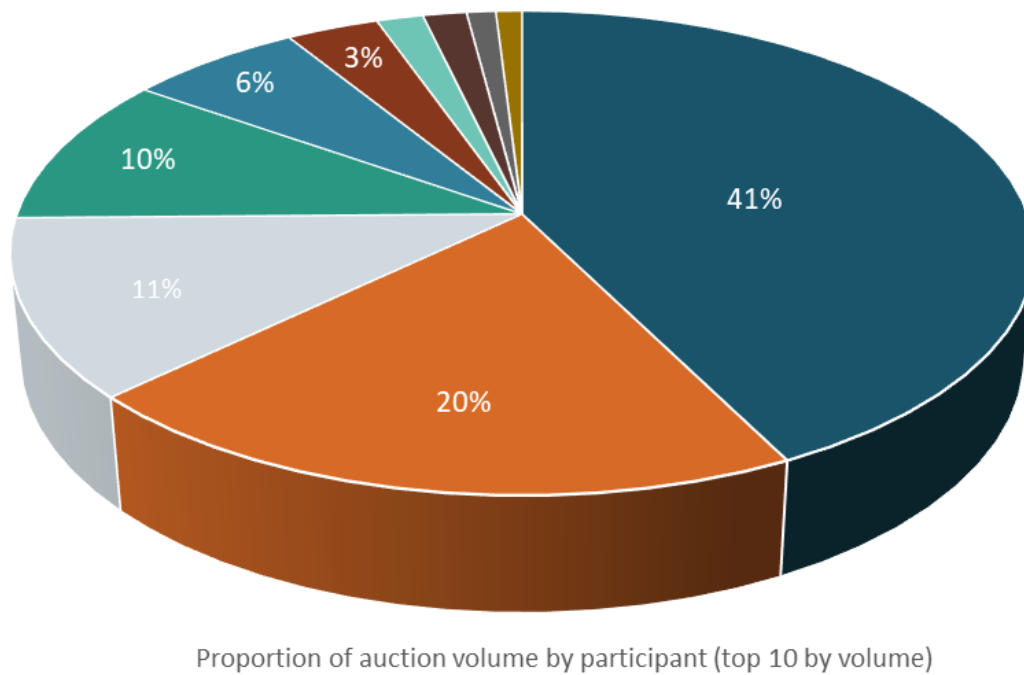


**Figure A.4 Bid volume (of thousands of NZUs) per participant**

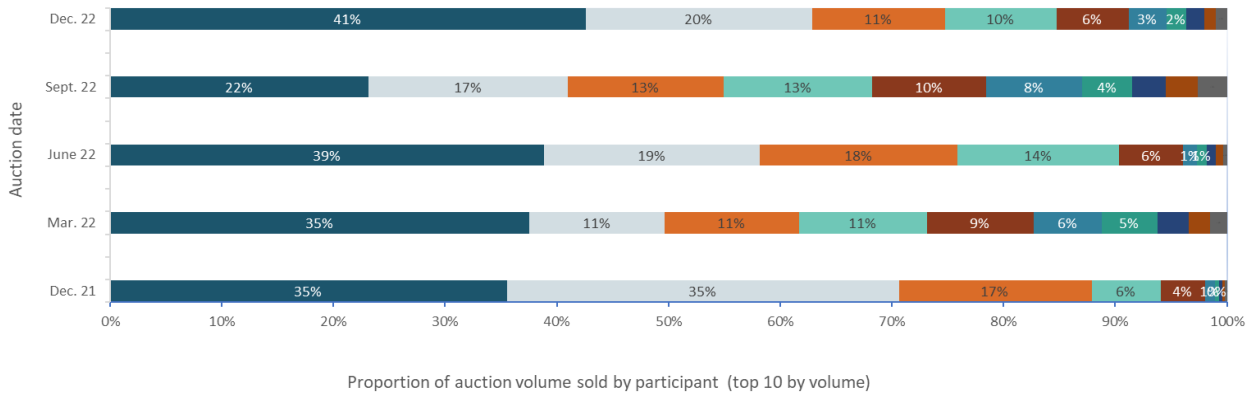


Note that many participants submitted multiple bids and there may be multiple bidders representing a single participant.

**Figure A.5 Proportion of successful bids (by volume) by participant, December 2022**



**Figure A.6 Proportion of successful bids (by volume) by participant over the last five auctions**



**Figure A.7 Proportion of participants with mandatory compliance obligations under the NZ ETS**

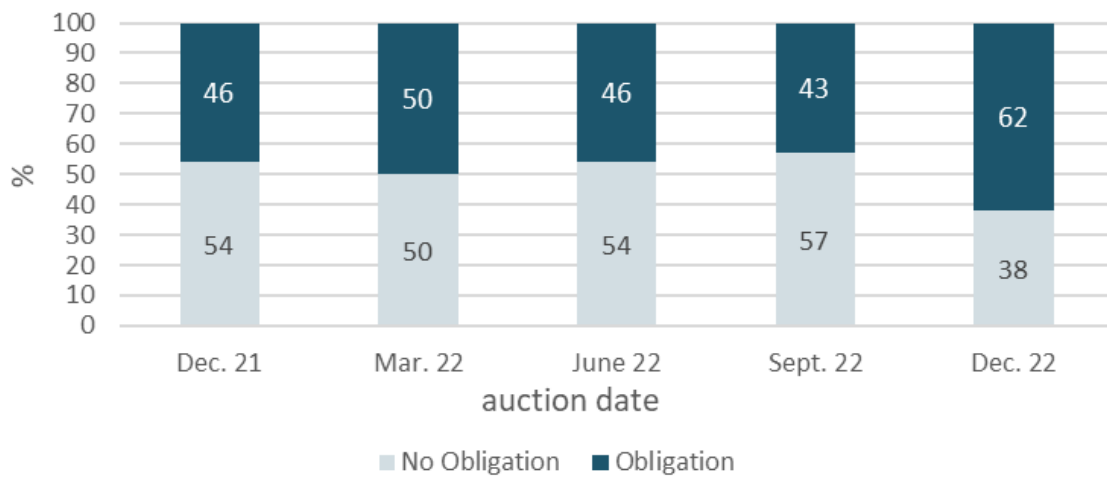


Figure A.7 represents the percentage of participants that are registered as having mandatory compliance obligations on the ETS Register. Larger volume participants, not necessarily registered as having compliance obligations, may be purchasing NZUs on behalf of smaller third parties that do have compliance obligations.

# References

New Zealand Cabinet. 2018. *Amendments to the Climate Change Response Act 2002: Tranche One*. Cabinet Committee Minute of Decision CAB-18-MIN-0606.01. Wellington: Cabinet Office, Department of the Prime Minister and Cabinet.

Ministry for the Environment. 2019. *Reforming the New Zealand Emissions Trading Scheme: Rules for auctioning: Technical consultation document*. Wellington: Ministry for the Environment.

New Zealand Cabinet. 2020. *New Zealand Emissions Trading Scheme: Regulatory Decisions on the Rules for Auctioning*. Cabinet Economic Development Committee Minute of Decision DEV-20-MIN-0047. Wellington: Cabinet Office, Department of the Prime Minister and Cabinet.