

New Zealand Emissions Trading Scheme interim auction monitor report

14 June 2023 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 tenth scheduled New Zealand Emissions Trading Scheme (NZ ETS) auction, the second auction for the year, held on 14 June 2023.

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 most recent 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 third of 2023, is scheduled to be held on 6 September 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.¹ Further public consultation on auctioning regulations took place between November and December 2019.²

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 tenth scheduled auction which occurred on 14 June 2023.

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].³

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

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

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

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

Auction information: 14 June 2023

Auction result

Following the completion of the 14 June 2023 auction window the auction operator declared that there were no successful bids in the auction.

Under the Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020 section 33(a)(b), no bids are deemed to be successful and no units may be sold to bidders, if—

- (a) there is a confidential reserve price at the auction; and
- (b) the final clearing price is less than the confidential reserve price.

In a repeat of the first auction of the year, both of these conditions were met in the June auction and again no NZUs were sold. Consequently, all of the units that were available for both auctions (in total 8,950,000 NZUs excluding the Cost Containment Reserve (CCR) volume) will be added to the NZU volume allocated to the third auction, which is scheduled to be held on 6 September 2023.

As the Cost Containment Reserve (CCR) mechanism was not triggered, the full allocation of CCR units will again be available in the next auction.

Auction metrics

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

Table 1 Metrics for NZ ETS auction held on 14 June 2023

Number of participants	17
Number of successful participants	0
Volume available at auction (Including 8,000,000 million CCR units)	16,950,000
Volume of NZU sold	0
Volume of NZU bid for	3,058,200
Average bid size	27,802
Average volume bid per participant	179,894
Average volume won per successful participant	0
Average number of bids per participant	6.5
Total number of bids submitted (not including withdrawn bids)	110
Number of bids withdrawn	3
Number of successful bids	0
Cover Ratio (Excluding 8,000,000 million CCR units)	0.34
Aggregated 'top 5' participants volume (aggregated bids) as a percentage of total units sold	87.4
Herfindahl–Hirschman Index (measure of market concentration by volume purchased 'top 10')	0.19
Estimated percentage of bidders with mandatory compliance obligations	51

Commentary on the results of the auction

The tenth NZ ETS auction and the second for 2023 was conducted on 14 June 2023. No units were sold as a result of the auction and consequently the auction operator declared the status of the auction to be 'declined'.

No bids were considered to be successful as the clearing price did not exceed the confidential reserve price (CRP).

Following the March auction, this is the second auction in which the CRP has prevented the sale of any units. The auctioning mechanism, systems and processes functioned as designed and in accordance with regulation and policy.

The cost containment reserve mechanism was not triggered, therefore no CCR volume was required to be released.

Auction bid volume (the total number of NZUs bid for) totalled marginally over 3 million NZUs; substantially down from the average historical average volume as reflected in a cover ratio of 0.34, excluding the CCR volume.

Seventeen participants submitted 110 bids in total in the auction. Similar to the March auction but lower than the average level of participation.

The June auction is the first in which the demand for units failed to exceed the allocated bid volume for an auction (the 'distributed volume'), let alone the combined allocation of the March and June auctions (the 'cumulative volume').

Note that it is possible in such a scenario that an auction may result in NZUs being sold provided that the lowest bid received exceeds the CRP – this is called a ‘partially settled’ auction. The lowest bid in this auction was below the CRP therefore no NZUs were sold.

The reduced demand did not manifestly impact the market concentration index of 0.19. This figure is at the lower end of the historical range and indicates, in this context, that although the larger players’ continue to dominate demand, allocations are being relatively evenly distributed amongst themselves. The top five participants submitted 87 per cent of bids.

Eight of the 17 participants are estimated to have compliance obligations under the NZ ETS and, given the overall low demand, would have been successful in securing all of their bid volumes had the auction not been declined. Participants directly registered in the NZ ETS submitted bids for 51 per cent of the total number of bids in this auction.

As usual, it is highly likely that several of the larger players in the auction represented multiple third parties, some of which may have compliance obligations.

As noted, demand for the June auction was substantially muted. In the hypothetical absence of an applied CRP and as the total bid volume was less than the cumulative bid volume, the lowest received bid would be the hypothetical clearing price.

The [appendix](#) to this document provides summary auction data. The previous IAM report presented (for demonstration purposes) a hypothetical scenario of results in the absence of a CRP. As the total bid volume in the June auction did not reach the level of the cumulative volume, presentation of a theoretical clearing price could be considered spurious in this instance and, contrary to regulations⁴, would reveal the value of the lowest bid.

Approximately two-thirds of the bid volume exceeded the CRP.

The auction clearing price

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

The theoretical auction clearing price was below the confidential reserve price therefore no bids were considered successful.

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.

⁴ Clause 29 Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020.

The IAM independently confirms that the confidential reserve price was correctly calculated and applied to the bid data which resulted in no bids being considered successful.

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 no tied bids in the 14 June 2023 auction.

Cost containment reserve

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 NZ ETS auction. The cost containment reserve trigger price for all four 2023 auctions was set according to regulation at NZD80.64 (increased from NZD70.00 per NZU applied in 2022) and as previously published.

The available CCR volume to be shared across all four auctions in 2023 is 8.0 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 not breached in the June 2023 auction. No units of CCR reserve volume were made available for sale. The full CCR volume remains available across the remainder of the year's auctions.

Commentary on the auction operation

General

No NZUs were sold as a result of this auction. The auction operator has confirmed that the auction process ran smoothly with no outages or delays. The Ministry for the Environment has similarly confirmed that the auction ran smoothly.

A technical and coordination issue resulted in the auction operator publishing incorrect auction result data on the Ministry for the Environment's auction noticeboard⁵ website. This was corrected within 30 minutes of the completion of the auction. The auction operator has investigated and remedied the issue and is in communication with the Ministry for the Environment.

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

Collateral and settlement

Collateral deposits were again significantly less than usual and in keeping with the overall lower demand and price expectations.

With no NZUs being transferred as a result of the auction, collateral was returned to the participants on the day of the auction for domestic participants and on the following day for offshore depositors.

The majority of participants continue to prefer cash to other instruments when providing collateral, most depositing the cash within the final 24 hours of the 'collateral window'.

A technical issue resulted in a delay in depositing collateral from one potential participant. Ministry for the Environment finance officers were satisfied that the circumstances were beyond the control of the participant and the deposit accepted. This case does however highlight the risks that a number of participants continue to take in last-minute deposits of collateral.

No invoices were required to be issued.

⁵ [Managed Auction Service auction noticeboard website.](#)

Feedback on the auction monitoring report

Please send any information about the NZ ETS auctions to the interim auction monitor at etsconsultation@mfe.govt.nz for consideration in future reports.

Appendix

Graphical presentation of historical auction metrics

Legend for graphs in this report

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

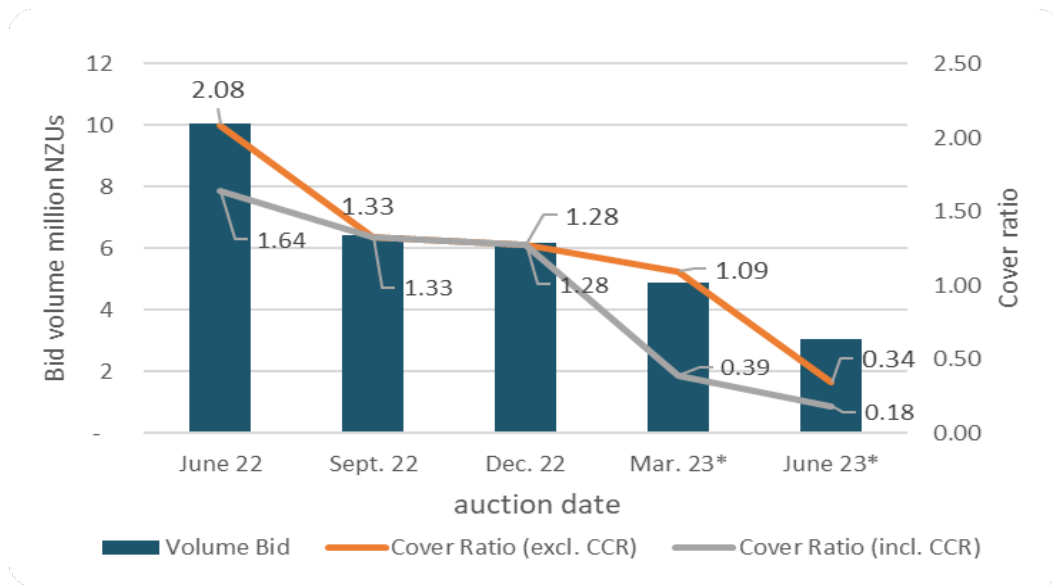
Mar. 23* Auction 9, held on 15 March 2023

June 22* Auction 10, held on 14 June 2023 (this auction)

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

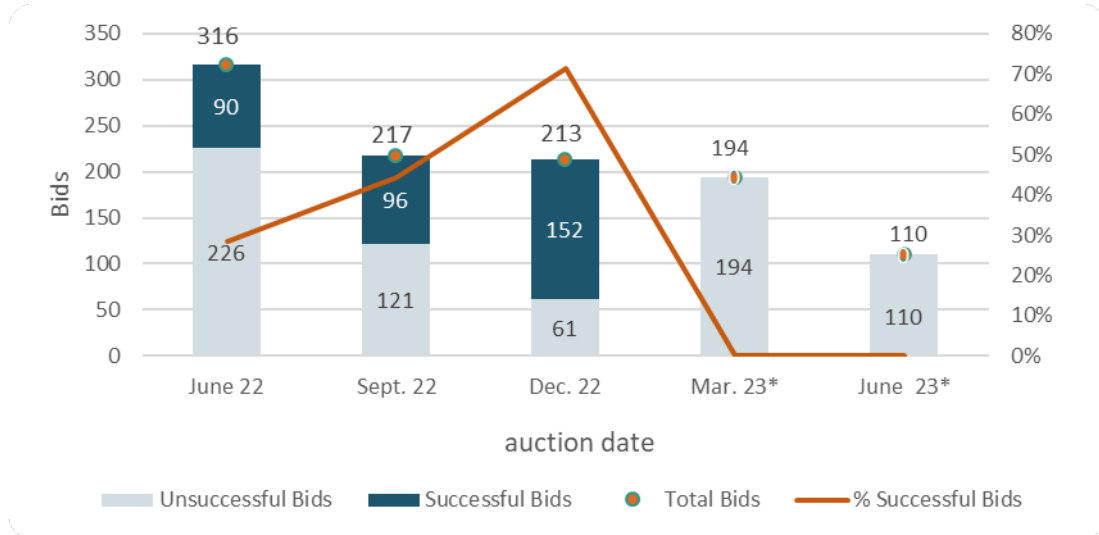
***June 2023 and March 2023 auction status was declared 'declined' by the auction operator. No NZUs were sold at either auction.**

Figure A.1 Volume of NZUs bid for and cover ratio per auction



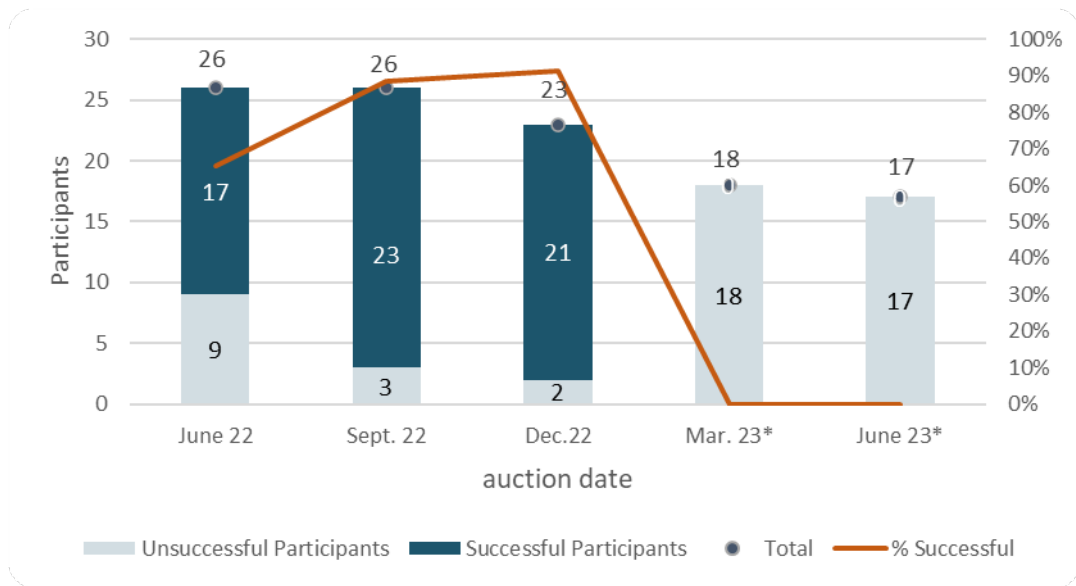
❖ Declined auction

Figure A.2 Total number of bids per auction



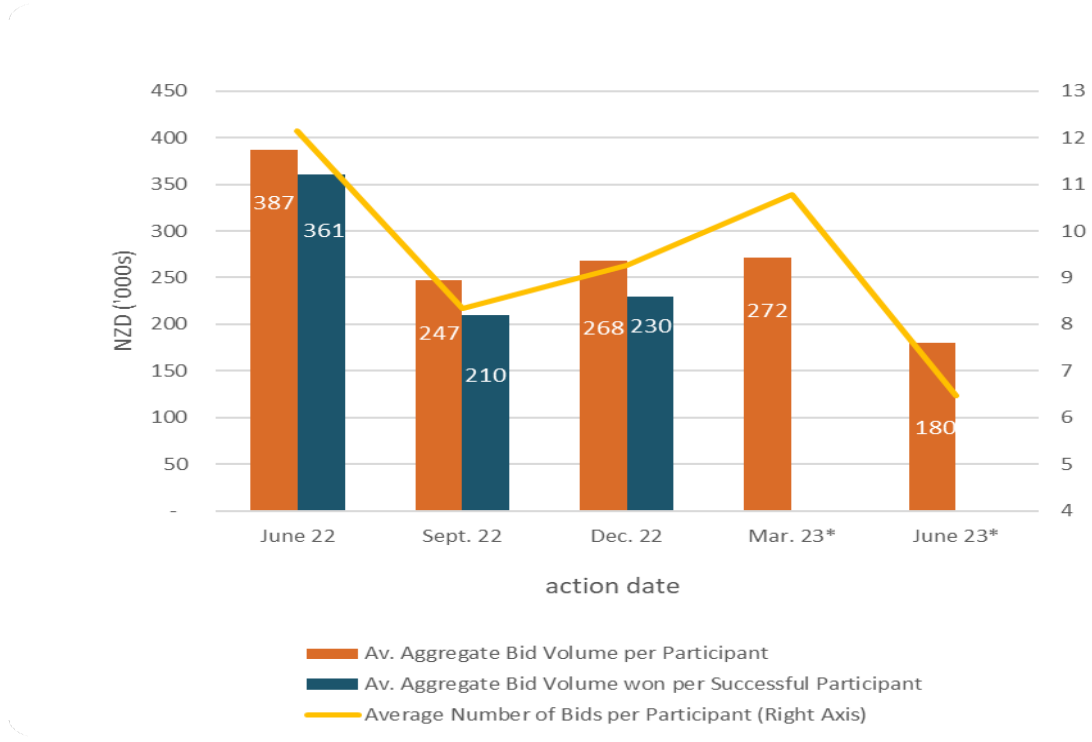
❖ Declined auction

Figure A.3 Participant numbers per auction



❖ Declined auction

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



❖ Declined auction

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

Figure A.5 Proportion of bids (by volume) by participant, June 2023

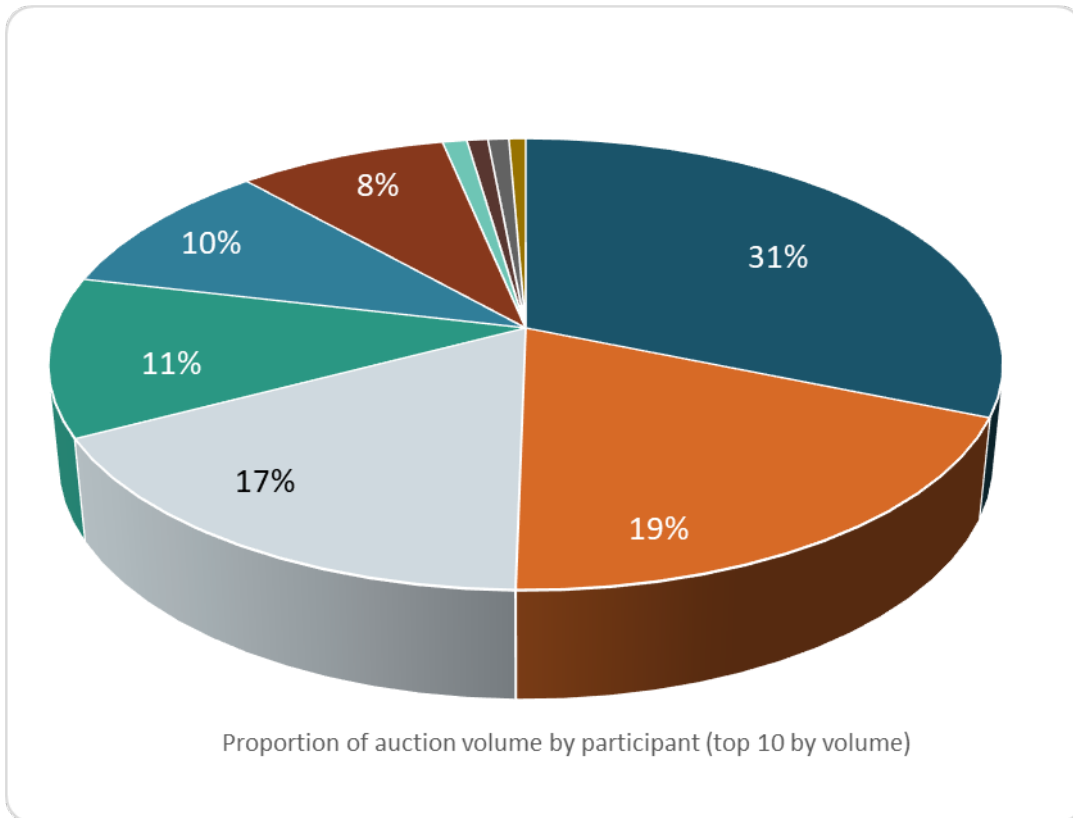
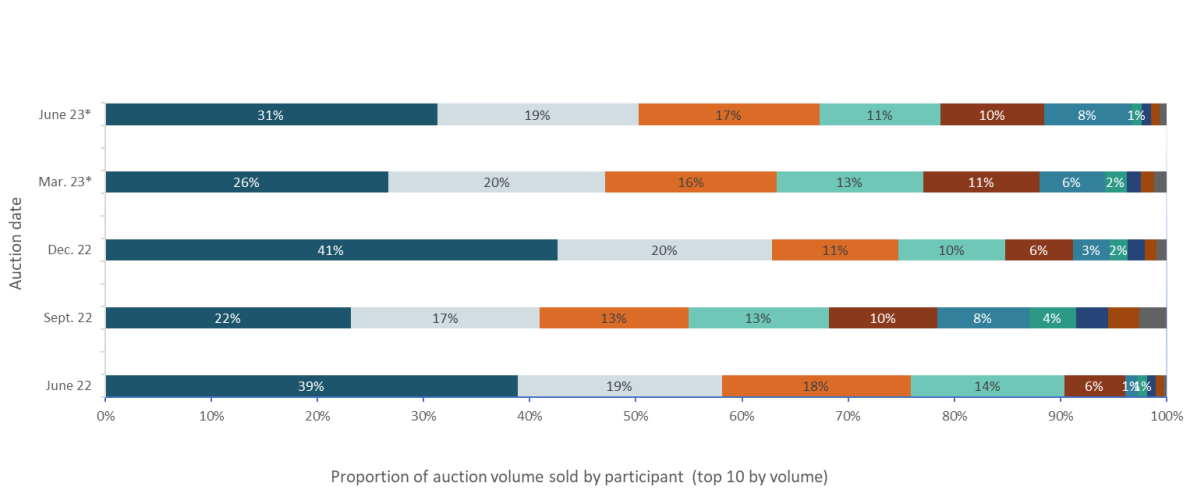
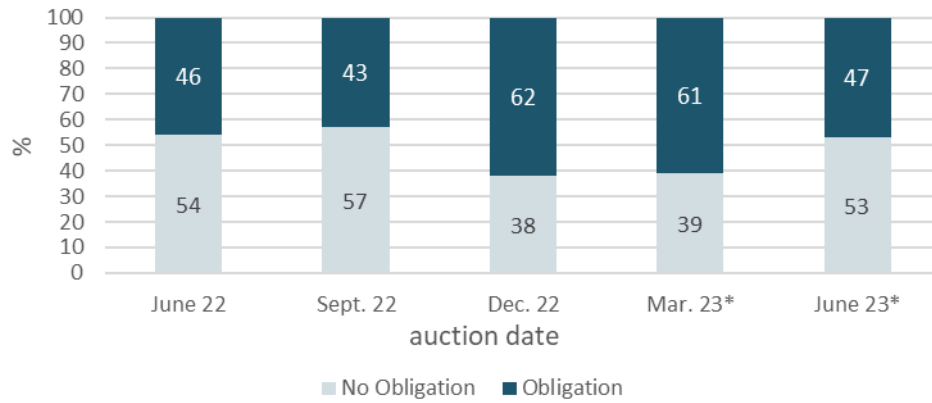


Figure A.6 Proportion of successful* bids (by volume) by participant over the last five auctions



March and June 2023 auctions were declined. The percentages presented are of bid volumes as a facsimile of 'sold auction volume'.

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



❖ Declined auction

Figure A.7 represents the estimated percentage of participants that are registered as having mandatory compliance obligations on the NZ 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.

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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.