



New Zealand Emissions Trading Scheme Interim Auction Monitor Report

23 June 2021 auction



Ministry for the
Environment
Manatū Mo Te Taiao

New Zealand Government

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Contents

| | |
|--|----|
| Introduction and purpose of this report | 4 |
| Background | 5 |
| Auction monitor to provide information on auctions | 5 |
| (Interim) auction monitor's functions | 5 |
| Auction information: 23 June 2021 | 6 |
| Auction metrics | 6 |
| The auction clearing price | 7 |
| The confidential reserve price | 7 |
| Resolved tied bids | 7 |
| Commentary on the auction operation | 9 |
| Collateral and settlement | 9 |
| Feedback about the auction monitoring report | 10 |
| Appendix | 11 |
| Graphical presentation of historical auction results and metrics | 11 |
| References | 16 |

Tables

| | |
|--|---|
| Table 1: Metrics for NZ ETS auction 23 June 2021 | 6 |
|--|---|

Figures

| | |
|--|----|
| Figure 1: Resolved tied bids | 8 |
| Figure 2: Distribution of collateral received prior to the auction. | 9 |
| Figure 3: Total number of bids | 11 |
| Figure 4: Total number of participants | 12 |
| Figure 5: Average bid size | 12 |
| Figure 6: Average volume bid for and won per bidder | 13 |
| Figure 7: Average number of bids per bidder | 13 |
| Figure 8: Proportionate distribution of successful bids by units sold – Auction 1 | 14 |
| Figure 9: Proportionate distribution of successful bids by units sold – Auction 2 | 14 |
| Figure 10: Proportion of successful bids aggregated by (anonymised) bidder | 15 |
| Figure 11: Distribution of successful bids among market participants with and without mandatory compliance obligations | 15 |

Introduction and purpose of this report

This report is produced by the Ministry for the Environment (MfE) acting in the role of the interim auction monitor for the second scheduled New Zealand Emissions Trading Scheme (NZ ETS) auction held on 23 June 2021.

Auctioning of New Zealand units (NZUs) is undertaken at regular intervals throughout the year (currently quarterly) 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 provide 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.

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 scheme with New Zealand's climate change targets¹. Further public consultation on auctioning regulations took place between November and December 2019².

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 second auction, which occurred on 23 June 2021.

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 (MfE) will perform the function of the auction monitor, referred to in the document as interim auction monitor (IAM).

The IAM function is performed independently of the MfE 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 NZ ETS auctions](#), 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: 23 June 2021

Auction metrics

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

Table 1: Metrics for NZ ETS auction 23 June 2021

| | |
|--|---------|
| Number of participants | 37 |
| Number of successful participants | 16 |
| Average bid size | 18,630 |
| Average volume bid per bidder | 310,365 |
| Average volume won per bidder | 296,875 |
| Average number of bids per bidder | 16.66 |
| Total number of bids submitted (not including withdrawn bids) | 583 |
| Number of bids withdrawn | 17 |
| Number of successful bids | 238 |
| Largest successful bid as a percentage of the total units sold | 7.37% |
| Herfindahl–Hirschman Index (measure of market concentration) | 0.325 |
| Percentage of bidders with mandatory compliance obligations | 37.5% |

The auction clearing price

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

The IAM has calculated the clearing price using raw data provided by the auction operator and confirms that the clearing price of \$41.70 is correct.

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 auction operator has robust procedures and checks in place to ensure that the confidential reserve price is correct. The IAM is satisfied that these checks are sufficient and that the clearing price was above the confidential reserve price.

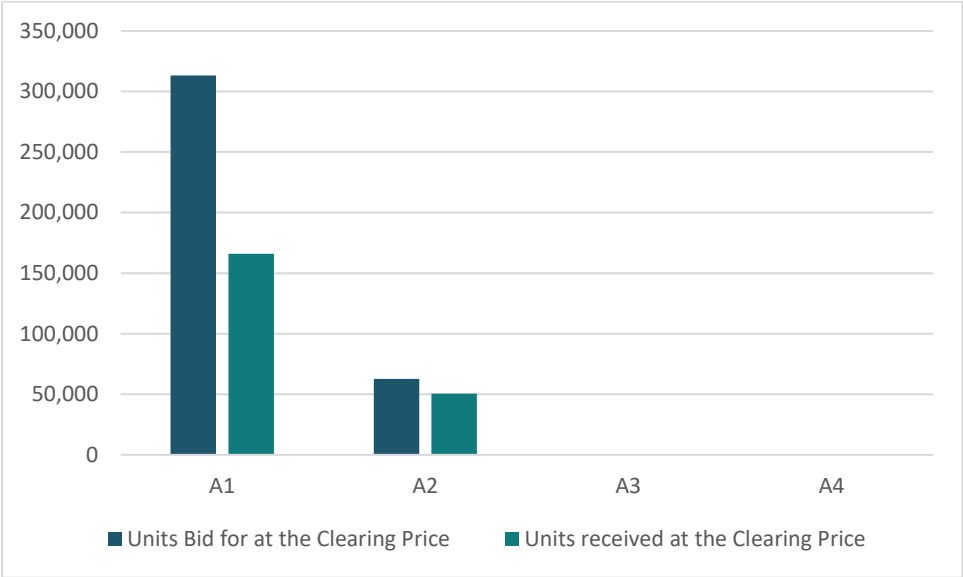
Resolved tied bids

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, known as lot size. 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)
- rounding down to the nearest 100 units means that there is no risk that the operator allocates more units to bids than there are units available for sale. However, it also means that unallocated units may remain after the first step is complete
- 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.

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

Figure 1: Resolved tied bids



Legend for graphs in this report

- A1 17 March 2021
- A2 23 June 2021
- A3 1 September 2021
- A4 1 December 2021

Commentary on the auction operation

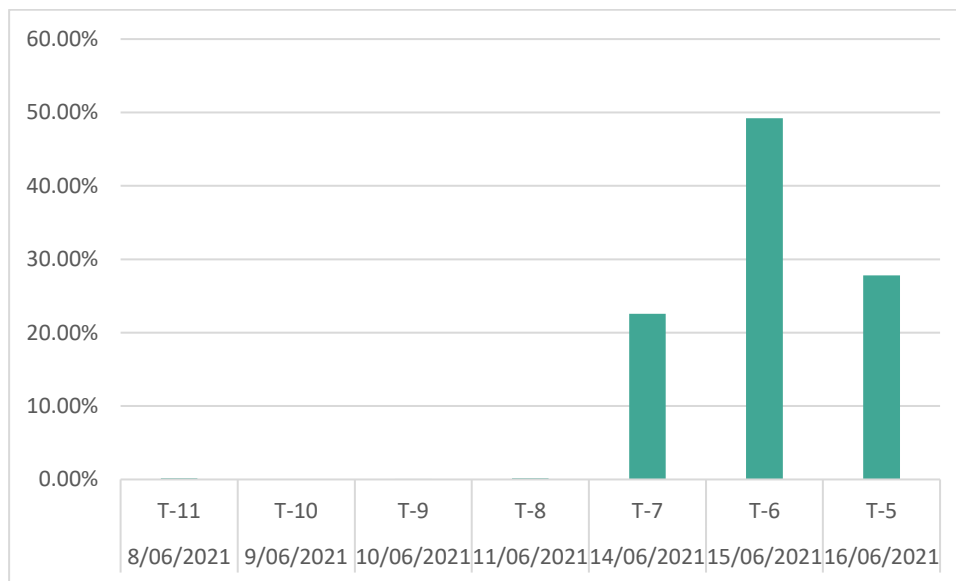
The auction operator has informed MfE that the auction ran smoothly with no outages or delays.

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

Collateral and settlement

All potential participants lodged collateral on or before T-5 (16 June 2021). Almost 28% were lodged on T-5, almost half (49%) were lodged on T-6, and just over 22% lodged on T-7.

Figure 2: Distribution of collateral received prior to the auction.



All invoices were settled by T+3 (28 June 2021). All NZUs were transferred to successful bidders' registry accounts by T+4 (29 June 2021).

The IAM notes that all participants lodged collateral within the prescribed timeframes, and all successful participants received their allocated units within the prescribed timeframe.

Feedback about the auction monitoring report

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

Appendix

Graphical presentation of historical auction results and metrics

Legend for graphs in this report

- A1 17 March 2021
- A2 23 June 2021
- A3 1 September 2021
- A4 1 December 2021

Figure 3: Total number of bids

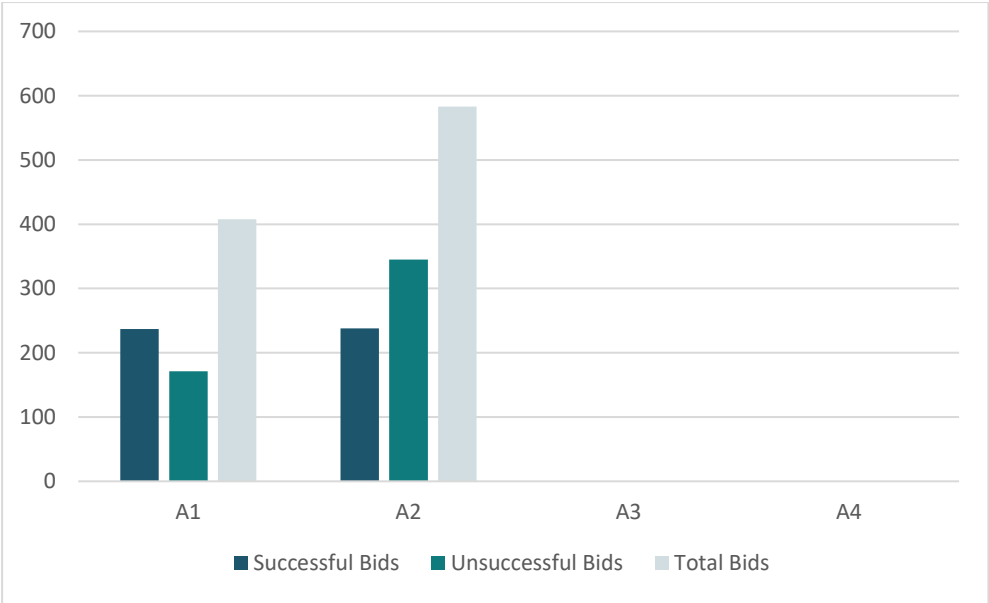


Figure 4: Total number of participants

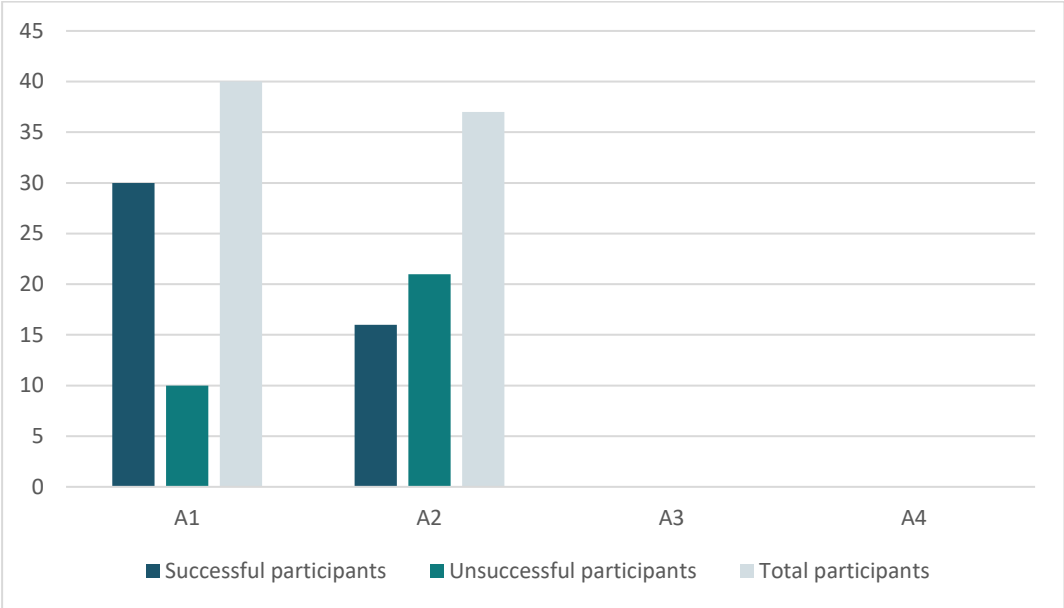


Figure 5: Average bid size

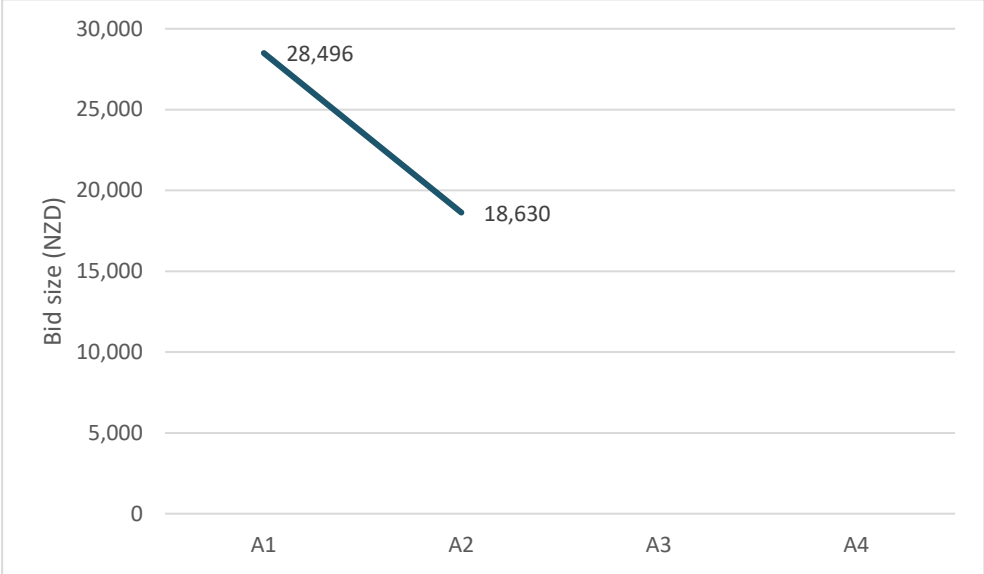


Figure 6: Average volume bid for and won per bidder

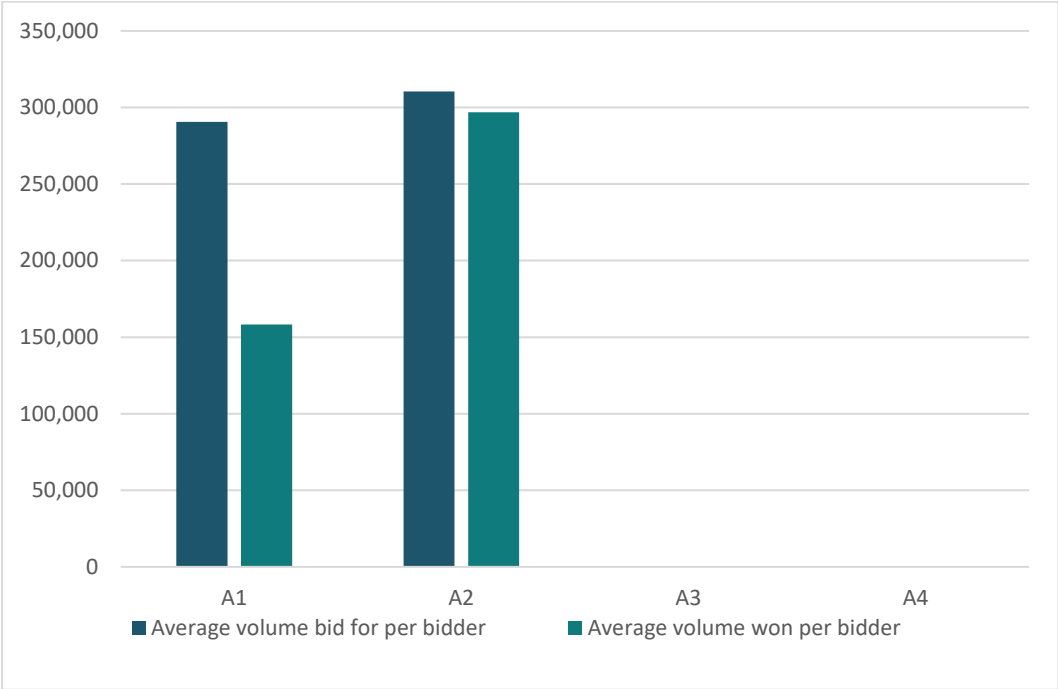


Figure 7: Average number of bids per bidder

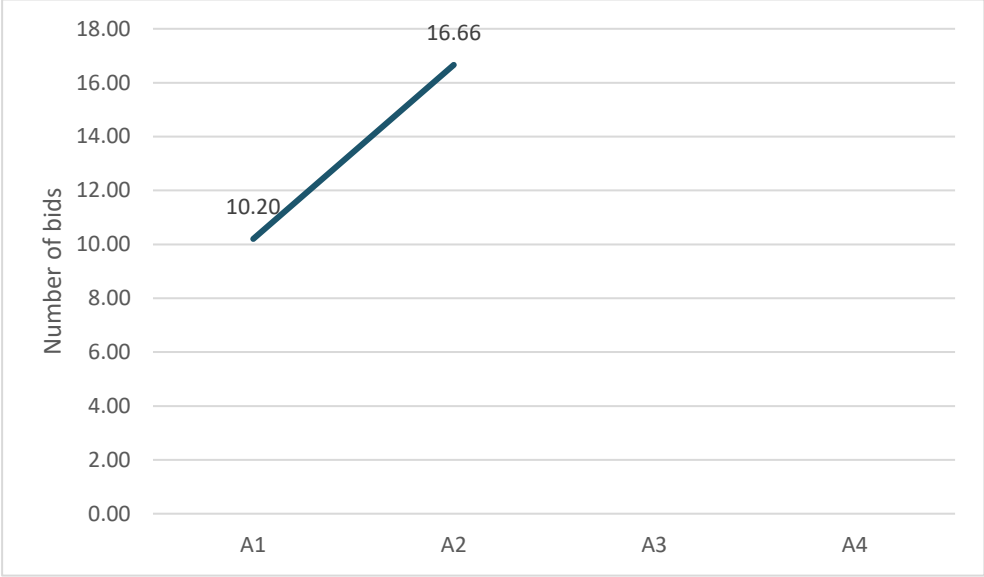


Figure 8: Proportionate distribution of successful bids by units sold – Auction 1

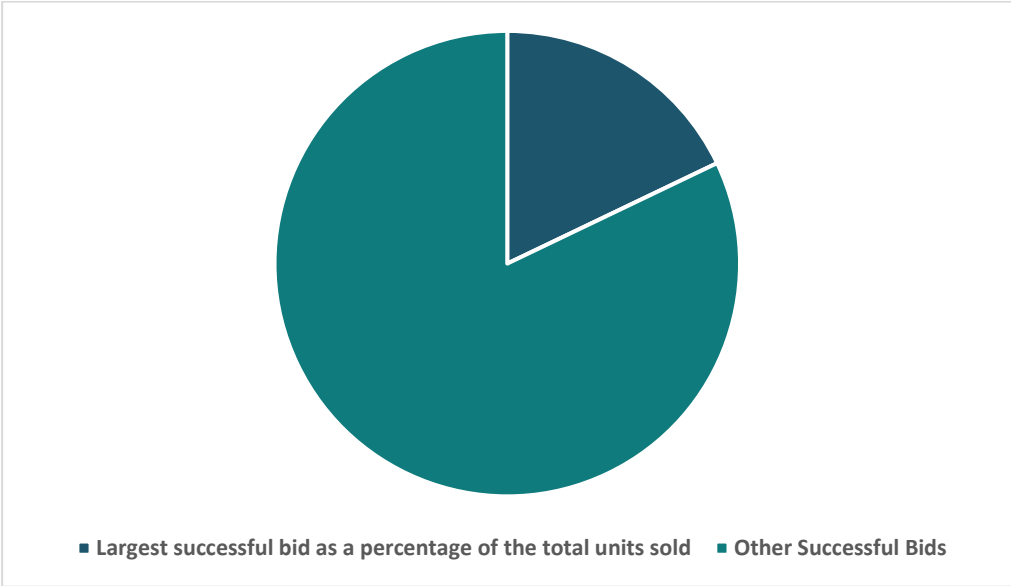


Figure 9: Proportionate distribution of successful bids by units sold – Auction 2

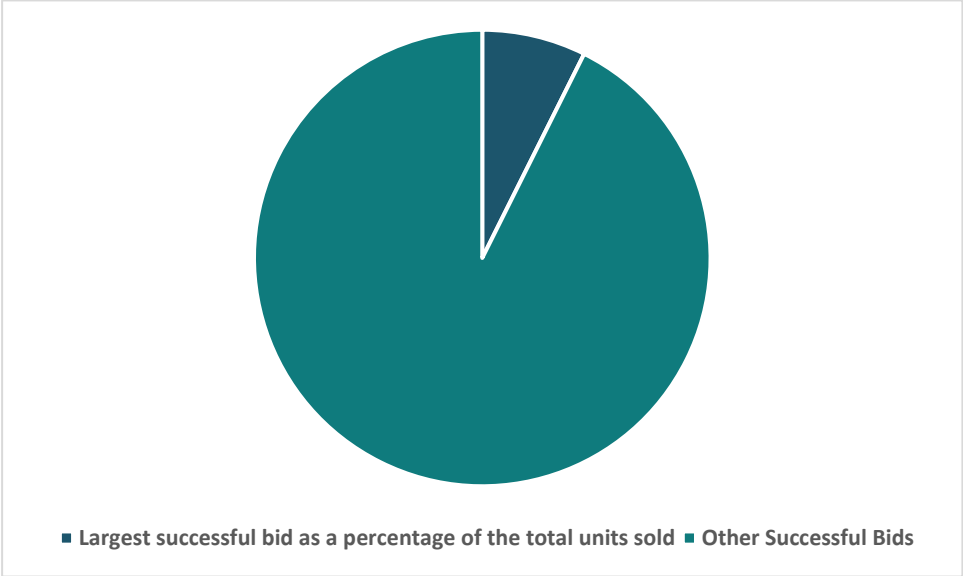


Figure 10: Proportion of successful bids aggregated by (anonymised) bidder

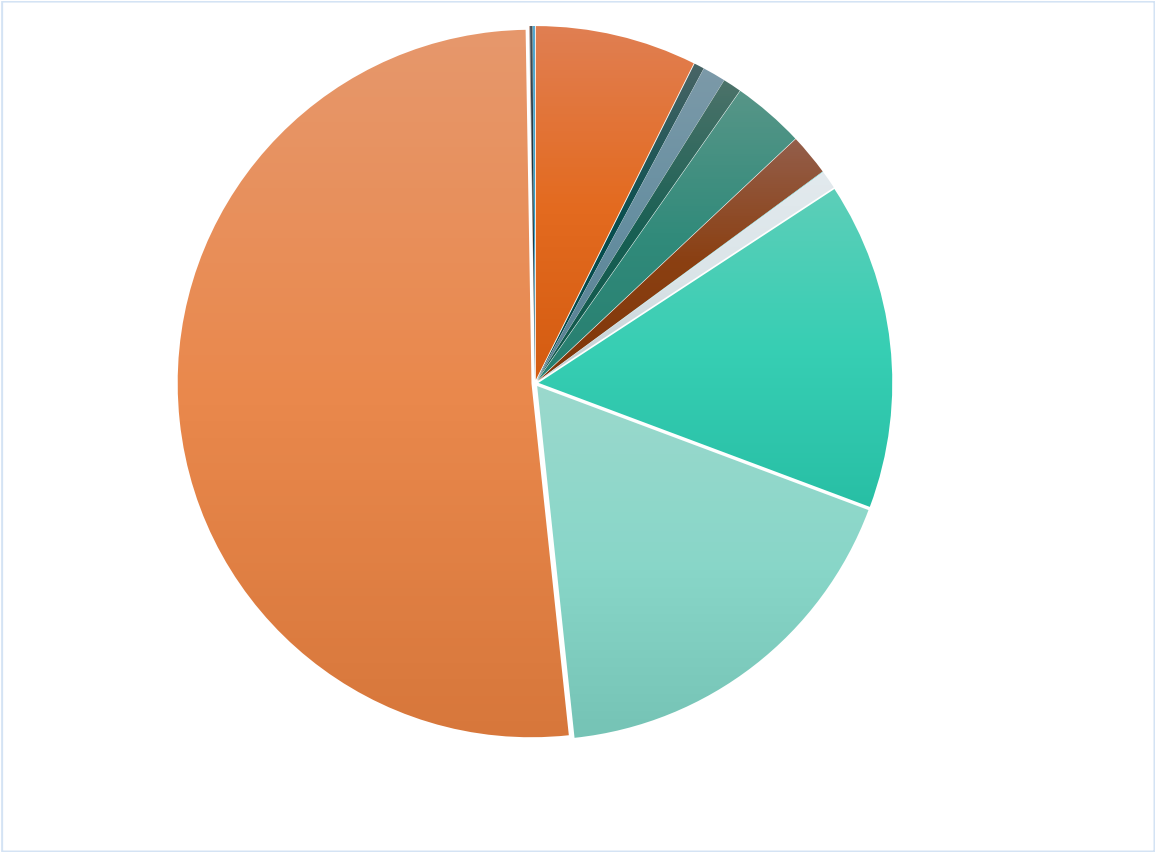
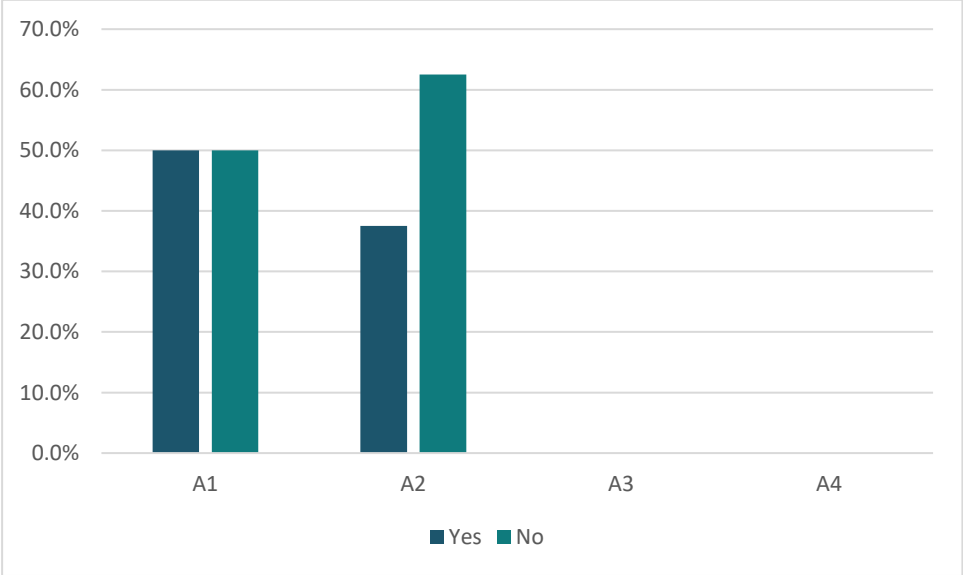


Figure 11: Distribution of successful bids among market participants with and without mandatory compliance obligations



References

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