

New Zealand Emissions Trading Scheme interim auction monitor report

4 December 2024 auction



Ministry for the
Environment
Manatū Mō Te Taiao



Te Kāwanatanga o Aotearoa
New Zealand Government

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Contents

Introduction and purpose of this report	4
Auction information	5
Auction results	5
Commentary on the auction results	7
Price	7
Units sold and cover ratio	8
Bidder behaviour	9
Participants	11
Commentary on the auction operation	13
Collateral and settlement	13
Appendix 1: Auction mechanics	14
The auction clearing price	14
The confidential reserve price	14
Resolved tied bids	14
Cost containment reserve	14

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 sixteenth New Zealand Emissions Trading Scheme (NZ ETS) auction and the fourth auction of 2024, held on 4 December 2024.

The NZ ETS auctions of New Zealand Units (NZUs or 'units') are held at quarterly intervals each year in accordance with the Climate Change Response Act 2002 and the Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020. Specific regulations for the auction monitor function have not been passed, so the Ministry is operating as the interim auction monitor.

The functions of an auction monitor include but are not limited to:

- monitoring the conduct of agents and auction participants
- the publication of an auction report as soon as is practicable following an auction
- calculating specified metrics about the auction process and auction results
- providing a periodic assessment of the auction system and making recommendations for improvement.

This auction monitor report provides the results of the latest auction. It also presents a comparison with previous auctions and provides assurance that the auction was conducted properly and in accordance with the applicable rules and laws. The next auction, the first auction of 2025, is scheduled for 19 March 2025.

We welcome feedback on this report; please send it to etsfeedback@mfe.govt.nz.

Auction information

The following table provides the price settings and units available for the 4 December 2024 auction.

Table 1 Unit and price information the NZ ETS auction held on 4 December 2024

December auction	Units available				Prices		
	Unsold from previous auctions	Total auction volume (excl CCR)	Tier 1 CCR	Tier 2 CCR	Price floor	Tier 1 CCR trigger price	Tier 2 CCR trigger price
3,525,000	7,600,700	11,125,700	2,800,000	4,900,000	NZ\$64.00	NZ\$184.00	NZ\$230.00

Note: CCR = cost containment reserve.

Auction results

- The fourth and final auction of 2024, held on Wednesday 4 December 2024, partially cleared at a clearing price of \$64.00.
- Twenty bids were received during the auction bidding window.
- 4,032,500 NZUs were sold to successful bidders as a result of the auction.
- No unsold units will carry over as this is the final auction of the year. They are permanently removed from the NZ ETS scheme and will not be available in future supply.
- The secondary-market closing bid-offer prices the day before the auction (3 December 2024) were NZ\$64.05 – \$64.20.
- The secondary market closing bid-offer prices the day of the auction (4 December 2024) were NZ\$63.00 – \$64.50.

Table 2 provides the key metrics of the auction. Figures 1 to 10 throughout this report present a comparison of the auction with previous auctions.

Table 2 Metrics for NZ ETS auction held on 4 December 2024

Metrics for NZ ETS auction	Response
Clearing price	\$64
Maximum bid price	\$65
Minimum bid price	\$64
Mean bid price	\$64.09
Number of participants	10
Number of successful participants	10
Volume available at auction (including 7,700,000 cost containment reserve [CCR] units)	11,125,700 (18,825,700 incl. CCR)
Volume of New Zealand Units (NZUs) sold	4,032,500
Volume of NZUs bid for	4,032,500
Mean bid size	201,625
Mean volume bid per participant	403,250
Mean volume won per successful participant	403,250
Mean number of bids per participant	2
Total number of bids submitted (not including withdrawn bids)	20
Number of bids withdrawn	0
Number of successful bids	20
Cover ratio (excluding 7,700,000 CCR units)	0.36
Aggregated 'top 5' participants volume (aggregated bids) as a percentage of total units bid for	91%
Percentage of bidders with compliance obligations*	60%

*See note on page 12.

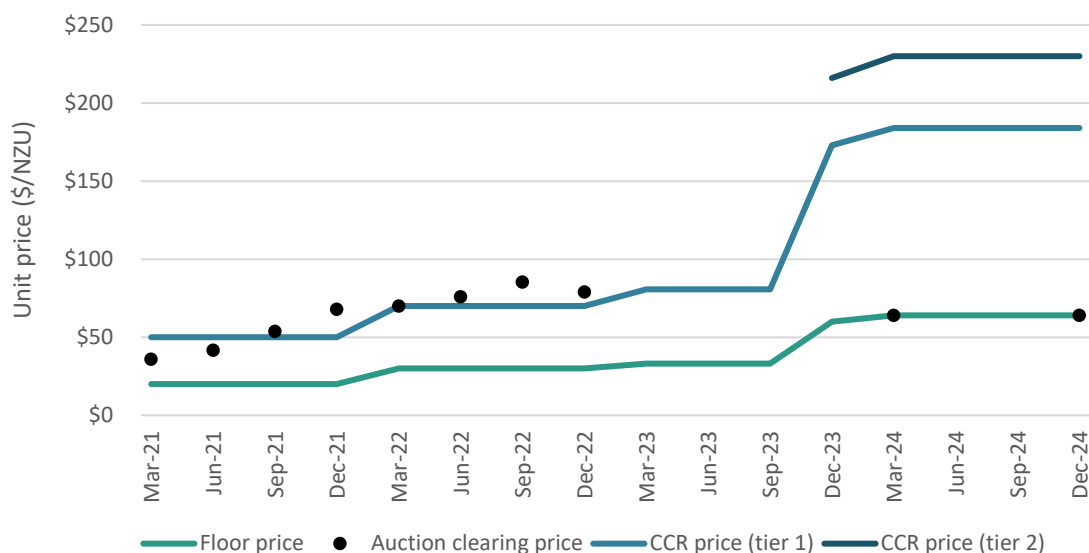
Commentary on the auction results

The 4 December 2024 auction was the fourth and final auction of 2024 and partially cleared. This auction followed the March 2024 auction, which partially cleared at the auction-floor price of NZ\$64, and the June 2024 and September 2024 auctions, which both received no bids and did not clear.

Price

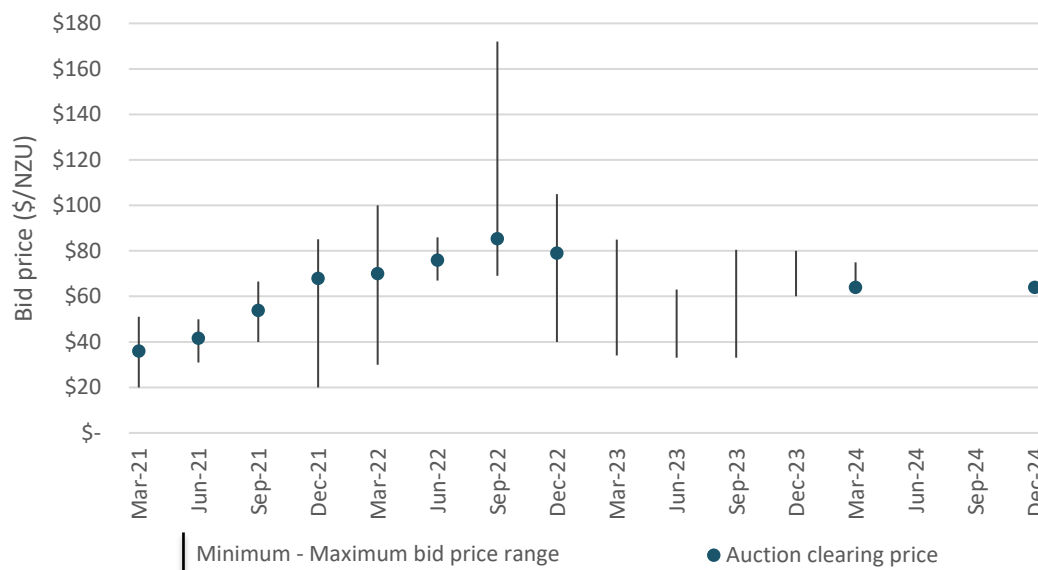
The clearing price was \$64 for the 4 December 2024 auction. This is equal to the floor price of the auction. The auction floor price is increasing to \$68 for the auctions in 2025 based on the updated auction price settings.

Figure 1: Auction clearing prices (relative to floor and CCR prices)



The maximum bid price was \$65, providing a bid price range of \$1. This is the smallest bid price range of any auction to date. The bid price range at the March 24 was \$11, which saw a maximum bid of \$75. The mean bid price range historically is \$39.93.

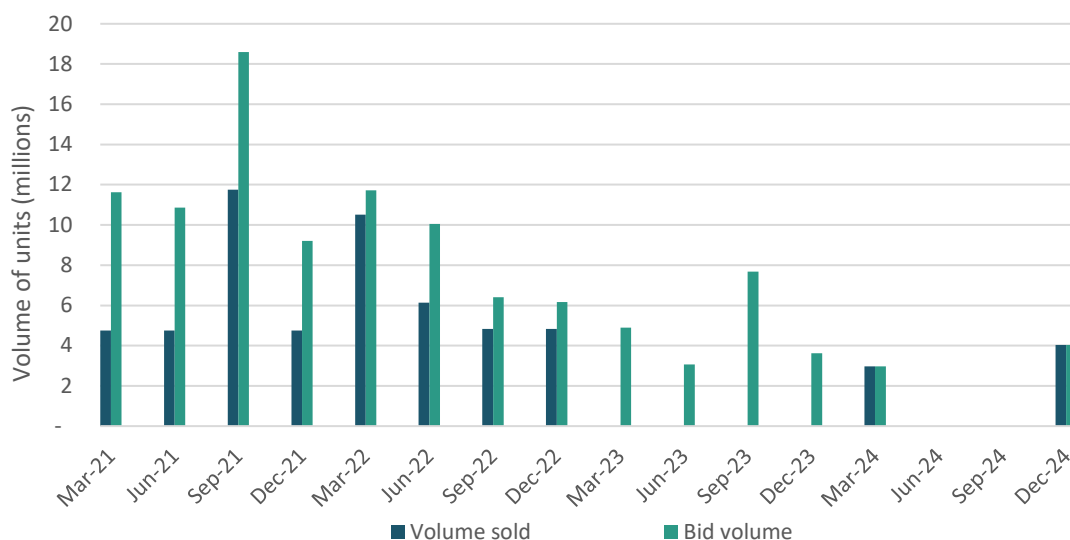
Figure 2: Range of minimum and maximum bid price observed at auctions



Units sold and cover ratio

7,600,700 units were carried over from the previous auctions of 2024, meaning a total of 11,125,700 units were available at the 4 December 2024 auction. 4,032,500 units were sold, and the remaining 7,093,200 units (excluding CCR) will not carry over into 2025. A total of 6,000,000 units (excluding CCR) will be made available in 2025 based on the updated auction unit settings. 1,500,000 unit will be made available per auction (excluding CCR), and any unsold units will roll over to the next auction.

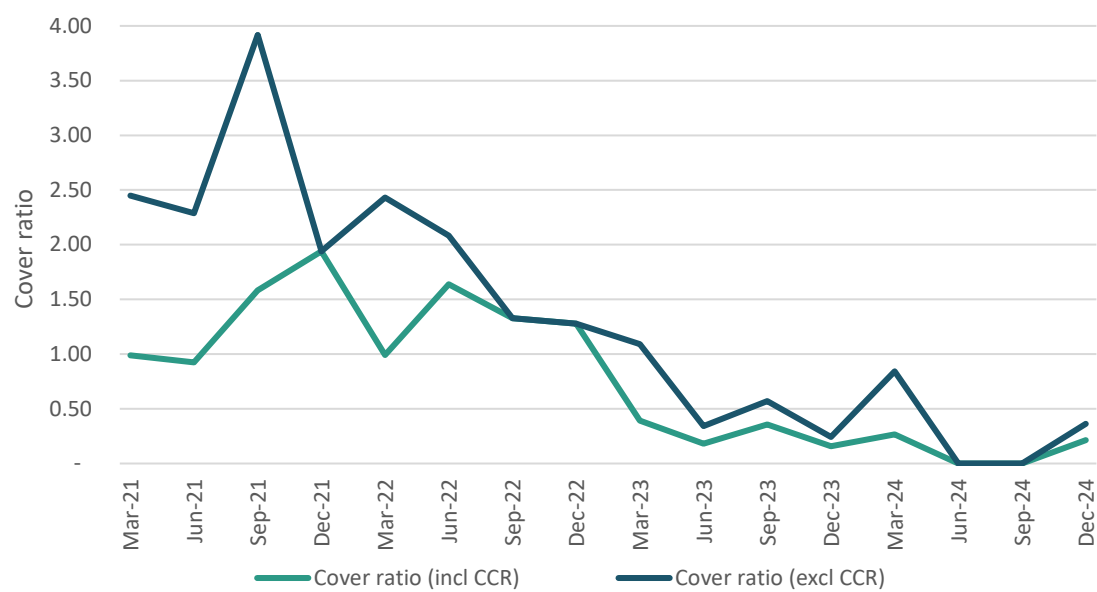
Figure 3: Bid volume versus total volume sold over time



The cover ratio shows the level of demand compared to the number of units available at auctions. It has been on a downward trend over time. The cover ratio for the 4 December auction was 0.36 (excluding CCR units). This is lower than the March 24 auction which had a

cover ratio of 0.84 (excluding CCR units); however, there were only 3.525 million units available in the March auction, compared to over 11 million in the December auction due to carried over units.

Figure 4: Trend of cover ratio over time (volume bid/volume sold)



Note: CCR = cost containment reserve.

Bidder behaviour

The 4 December 2024 auction saw the lowest level of bidder activity in any auction to date (other than auctions that did not clear because there were no bids). There were 20 bids, with an average of 2 bids per participant. As the auction partially cleared at the \$64 price floor, all bids were successful. The number of bids in this auction was significantly lower than past auctions, with the mean number of bids per auction historically being 317.

Figure 5: Total number of successful and unsuccessful bids

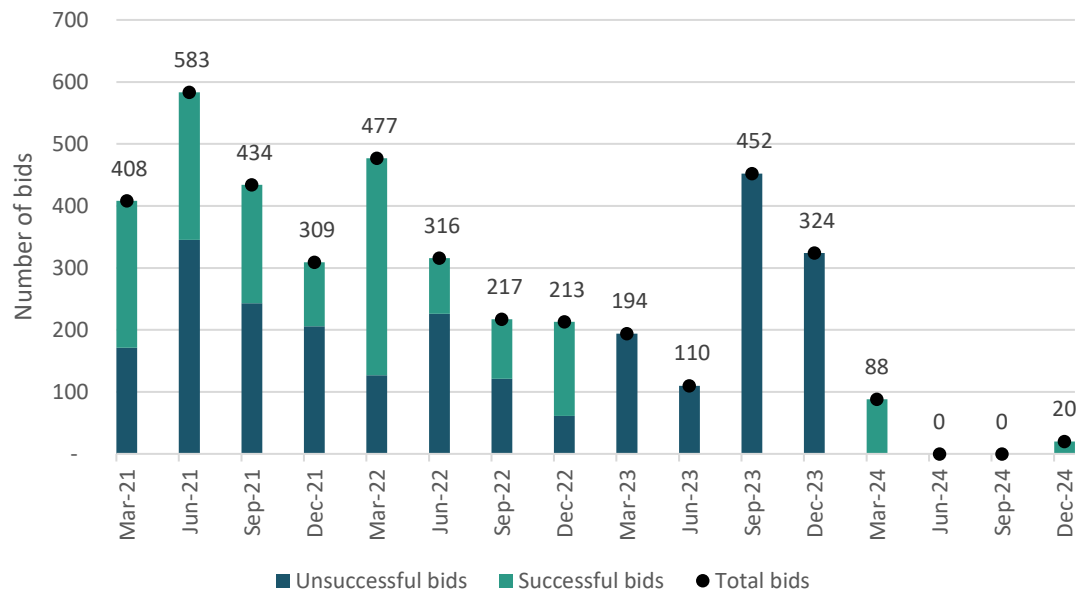
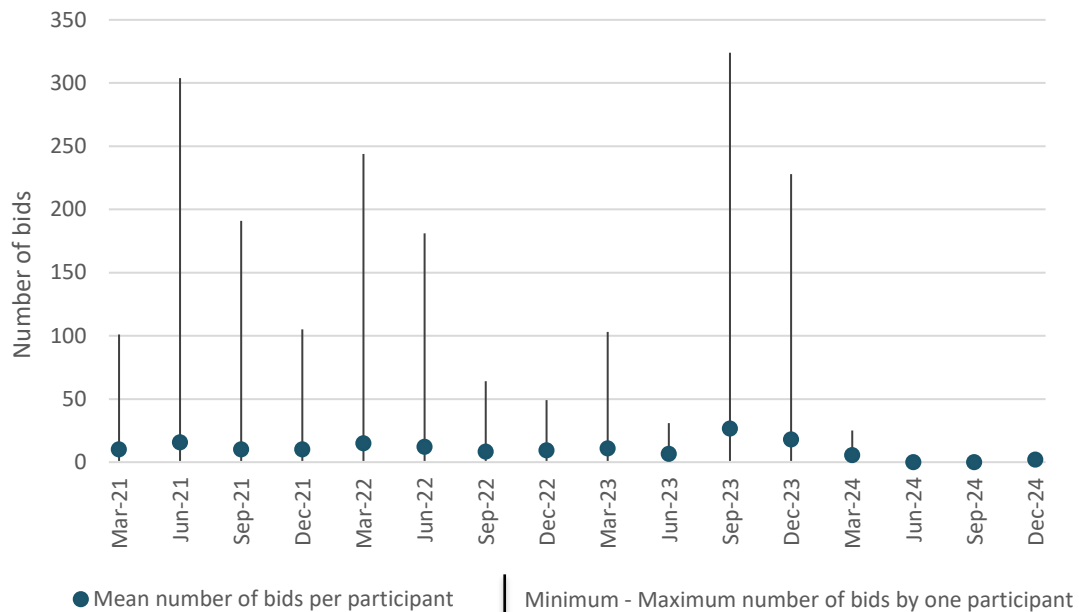
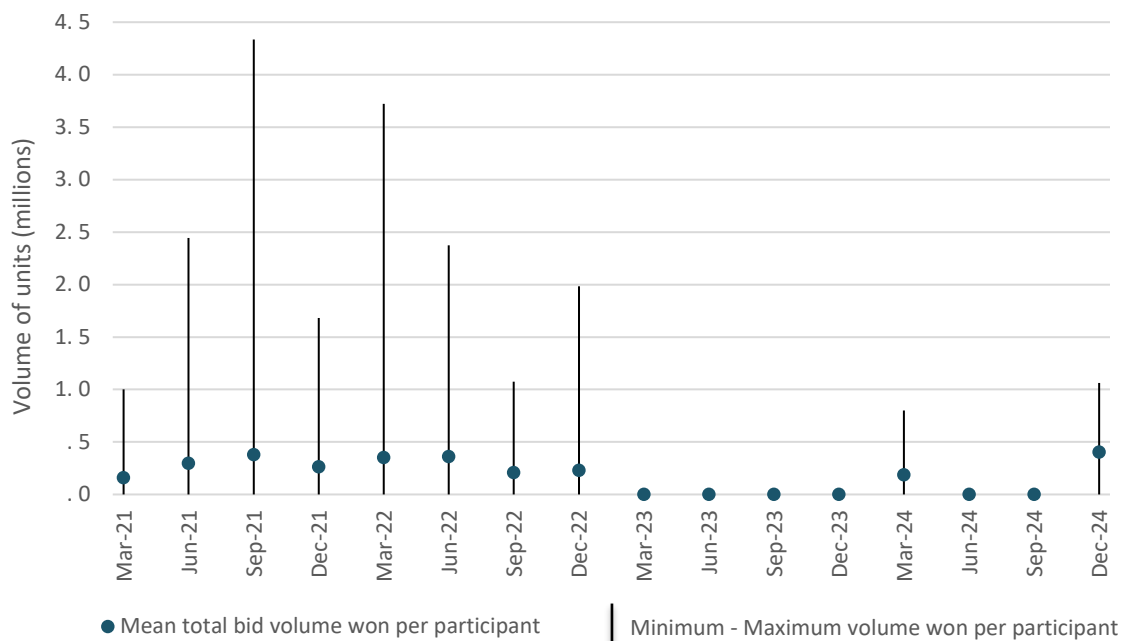


Figure 6: Range of maximum and minimum number of bids



The mean total bid volume won per participant was 403,250 units. This mean bid volume won per participant is the largest to date, with the historic mean across all past auctions being 302,204 units.

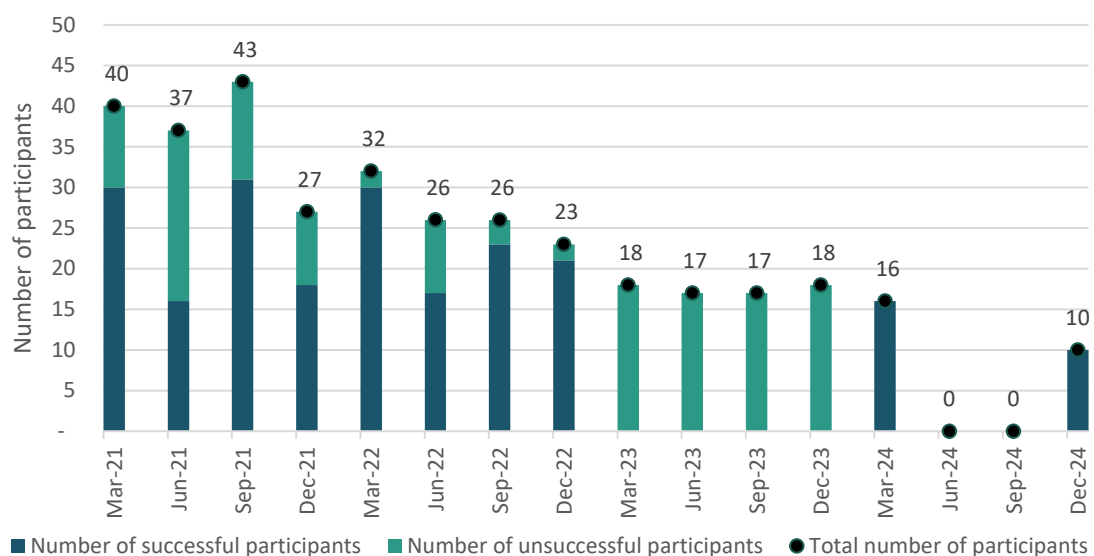
Figure 7: Range of maximum and minimum volume of units won per participant



Participants

Auction participation has been on a downward trend over time. However, the 4 December 2024 auction saw participation increase following zero participation in the June and September auctions. There were 10 participants, which is the smallest number of participants to date outside of the auctions that had zero participation. All participants were returning and had participated in previous auctions.

Figure 8: Participant numbers per auction



The ratio of compliance to non-compliance participants in the December auction differed from recent trends, which historically average a 50/50 split between compliance and non-compliance. Most of participants were compliance participants in the December 2024 auction, making up 60 per cent of participation. However, the non-compliance participants bought a larger proportion of units. Sixty-five per cent of units were bought by non-compliance participants. This is consistent with the historic trend of non-compliance participants purchasing a larger share of units.

Note: A participant with compliance obligations is a party who is directly registered in the NZ ETS with obligations under Schedule 3 and/or Schedule 4 of the Climate Change Response Act. However, there may be participants in an auction who do not have compliance obligations and could be purchasing units on behalf of another party that does have compliance obligations. In December 2024 we completed a classification review of compliance versus non-compliance participant status.

Figure 9: Number of compliance versus non-compliance participants

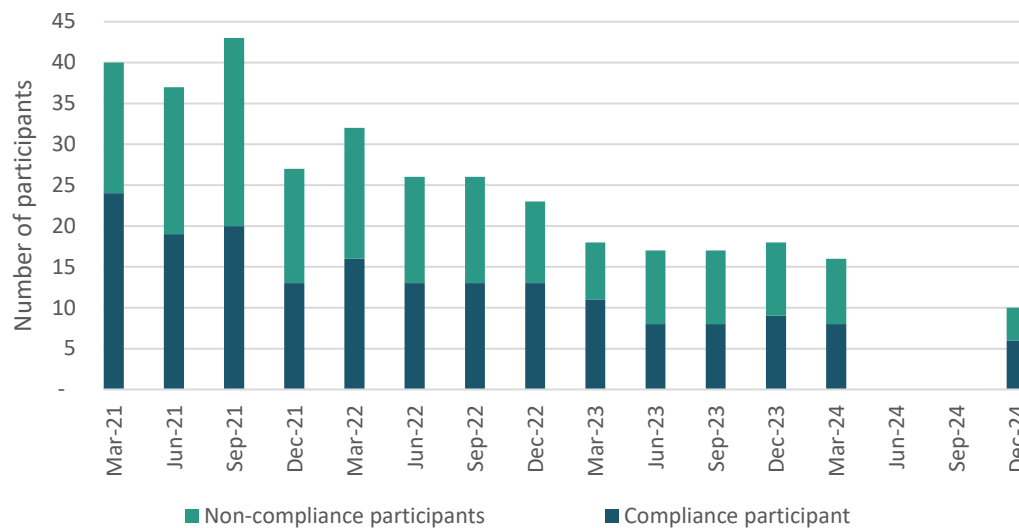
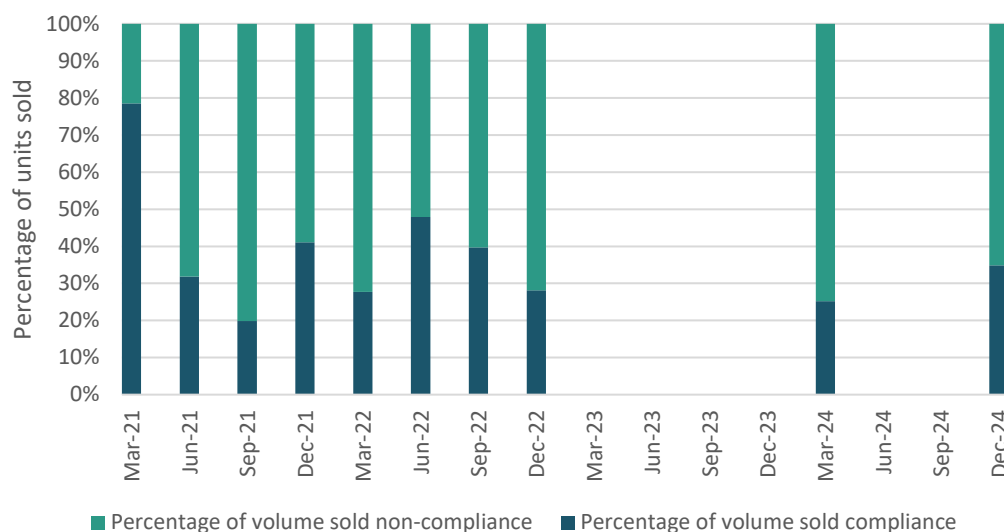


Figure 10: Number of units sold to compliance participants versus non-compliance participants



Commentary on the auction operation

The auction operator has confirmed that the auction mechanism, systems and processes functioned as expected, with no issues or delays observed. The Environmental Protection Authority also confirmed that register processes ran as expected and without issue.

The Ministry, acting in the role of interim auction monitor, is satisfied that the auction was conducted properly and ran in accordance with the applicable regulation and policy.

Collateral and settlement

As in past auctions, participants continued to make use of both cash and non-cash collateral instruments in the 4 December 2024 auction.

Unused cash collateral was returned to the participants on the day of the auction. For domestic participants, returned funds are expected to clear on the same day. For international participants, returned funds may take an additional day to clear.

All invoices were settled within the mandatory period of four business days following the 4 December 2024 auction.

The September 2024 auction was the first auction where a new accelerated settlement approach to transfer units the same business day that payment is made was technically available. However, in practice the approach was not applied at the September 2024 auction because no units were sold. The new accelerated settlement approach was applied at the December 2024 auction (a payment cut-off of approximately 1 pm local time applies) and the approach operated as expected.

A new auction collateral methodology will be made available in 2025, taking effect for the 19 March 2025 auction. The new methodology improves the way maximum value is calculated for bidders making more than one bid at more than one price. Collateral requirement remains as equal to at least 25 per cent of the bidder maximum value.

Appendix 1: Auction mechanics

The auction clearing price

The auction clearing price was \$64 for the final auction of 2024. This was equal to the auction floor price of \$64. The floor price will increase to \$68 for all auctions held in 2025, starting at the 19 March 2025 auction.

The confidential reserve price

The confidential reserve price (CRP) was not made use of in the 4 December 2024 auction.

The Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020 require the Minister of Climate Change to set a methodology for calculating a CRP for NZ ETS auctions. The purpose of the CRP is to prevent NZUs from being sold at auction at a price significantly below the secondary market price. If the auction clearing price is less than the CRP, the auction will not sell any NZUs. Unsold NZUs are rolled forward to be sold at the next auction in the same calendar year (but are not rolled forward into a new calendar year).

The mechanism for calculating the CRP was last revised ahead of the March 2024 auction to ensure that the mechanism remains confidential.

Resolved tied bids

There were no tied bids in the 4 December 2024 auction. 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.

Cost containment reserve

The CCR trigger prices were not breached in the 4 December 2024 auction. No CCR volume units were sold.

The CCR mechanism provides for 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 or prices. In 2024, there are two distinct CCR tiers and two associated trigger prices.

Both the auction volumes and the CCR trigger price(s) are set by regulation. These details are published on the [Ministry website](#), together with the dates for future auctions. Participants are urged to monitor the Ministry website to keep up to date with these details.