



NZ ETS Consultation
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Ministry for the Environment
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Greater Wellington Regional Council's responses to consultation on updates to ETS limits and price control settings for units 2024

To Whom It May Concern,

Thank you for the opportunity to submit our views on the annual updates to the price and volume settings of government emissions unit auctions for the New Zealand Emissions Trading Scheme (NZ ETS). Note we are not responding to the parallel consultation on NZ ETS regulations. Our responses to the individual consultation questions are included with this letter and have been entered on Citizen Space.

Annual auction volumes: Step 1, aligning with climate change targets

Three options are presented for aligning auction volumes with national emissions budgets and targets.

Q1: What do you think of each of the options presented for step 1? What is your preferred option? Is there any other option that you think we should consider?

We support option 3: 'Further adjustment to manage the impact of non-ETS policies' as this is likely to be the most effective option for reducing emissions.

Annual auction volumes: Step 5: Set the reduction volume to address the unit surplus

The 'unit surplus' are emissions units held in private accounts. Greater Wellington holds some of the unit surplus. The surplus's effect must be considered when setting emissions budgets and NZ ETS auction volumes. Three options are presented, one maintaining the status quo and two for adjusting in response to new, higher estimates of the size of the surplus.

Q7: What is your preferred option for step 5? Is there any other option that you think we should consider?

We support option 3: 'Update surplus reductions for 2025–28 to reflect the new surplus estimate' as it is the Climate Change Commission's recommendation, and Ministry for the Environment's analysis shows it is the best option.

Options for price control settings: Price control trigger prices (auction price corridor)

The price corridor consists of the auction floor price which is the minimum price that the government can sell emissions units for, and the trigger prices for the two Cost Containment Reserves (CCRs). The CCRs are intended to moderate the maximum price in auctions by adding additional emissions units into the market should the trigger prices be exceeded at auction. The consultation includes an option to extend the status quo by maintaining the existing price corridor prices (the Climate Change Commission's recommendation) and an option to lower them by an unspecified amount.

Q9: What is your preferred option for the price control corridor? Is there any other option that you think we should consider? What factors should inform the price these are set?

We strongly support the first option – maintain the status quo price corridor settings. Option 2 is assessed as net negative by the Ministry for the Environment. The analysis in the consultation document shows it only benefits emitters and is contrary to the overall objective of reducing emissions.

Furthermore, Greater Wellington is a holder of emissions units (NZUs) and is negatively affected by reductions in their price of the secondary market, which is affected by government NZU auctions and other ETS settings. We are leveraging our 255,660 pre-1990 free allocation NZUs to fund emissions reduction projects including a major native reforestation programme in our regional parks. Low NZU prices directly affect how much afforestation and other emissions-reduction work we can afford.

The suggestion in this consultation that the auction floor price could be lowered appeared to immediately cause a large drop in NZU spot prices, as you will no doubt be aware. This extreme level of price volatility in the secondary market for NZUs does not help with our forward planning and does not encourage investment in emissions reduction.

Q 10. Do you consider a price corridor (ie, an auction floor price and a CCR), to be important? Why or why not?

Yes, we consider the corridor to be important. The floor price provides upward pressure on emissions prices and the CCR provides a 'pressure release' mechanism, but importantly it is not an unlimited source of NZUs. The corridor is essential to market stability, as evidenced by the sudden drop in NZU prices by nearly 20% immediately following the release of this consultation in mid-May 2024, clearly in response to Ministry for the Environment advancing the option of reducing the price corridor prices.

The fact that the government auctions can fail because bids don't exceed the floor price also provides upward pressure on prices by restricting the number of units in circulation. It is a good correcting mechanism for low NZU prices in the secondary market.

Cost containment reserve volume

The number (volume) of NZUs in the two CCRs would affect attainment of national emissions budgets should they be triggered. The consultation has two options, maintaining the status quo CCR volumes, or increasing them.

11. What is your preferred option for the CCR volume? Is there any other option that you think we should consider?

Greater Wellington's preferred option is the status quo: do not increase the CCR volumes. If the CCRs are triggered and used up, emitters will be forced to seek units from the surplus (the stockpile of NZUs held in private accounts), which is helpful to the country attaining national emissions budgets and targets.

Impacts of NZ ETS unit settings

The consultation contains analysis of the impact of the outcome of any changes to auction price and volume settings assuming they lead to NZ ETS prices that are relatively higher than the status quo option in the near term, all else being equal.

Q12 Do you agree with our impact analysis? Are there any further impacts that should be considered, which we have not captured in our analysis

Yes, we agree with the impact analysis. Note though that in our view, the issue that higher prices in the NZ ETS increase land conversion to exotic forestry, should be addressed through other reforms to the ETS, not the auction price and volume settings. See our consultation response to MfE and the Ministry for Primary Industries dated 10 August 2023 concerning the status of permanent forests in the NZ ETS for Greater Wellington's views on such reforms.

Note for Q2, Q3, Q4, Q5, Q6 and Q8, we have no view.

We trust you will take our input into consideration.

Ngā mihi,



Luke Troy
Group Manager Strategy
On behalf of Greater Wellington Regional Council | Te Pane Matau Taiao