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Presented to the House of Representatives in accordance with Standing Order 272 J.17

Legislative Statement: Climate Change Response (Auction Price) Amendment Bill

The objective of this Bill is to amend the Climate Change Response Act 2002 (CCRA), and make consequential amendments to the Climate Change (Auctions, Limits and Price Control Settings for Units) Regulations 2020, to set a confidential reserve price for auctions in the New Zealand Emissions Trading Scheme (NZ ETS).

The CCRA is New Zealand's principle legislation for responding to climate change and provides for the implementation and operation of the NZ ETS. The CCRA was reformed in June 2020 through the Climate Change Response (Emissions Trading Reform) Amendment Act. The Climate Change Response (Emissions Trading Reform) Amendment Act transformed the architecture of the NZ ETS, including an overall framework for auctioning units. Regulations subsequently set the schedule and rules for auctioning, however did not enable a confidential reserve price.

This Bill rectifies the issue with the Climate Change Response Act which meant a confidential reserve price was not able to be set in auctioning regulations. This amendment enacts the original policy intent for the ETS auctioning rules.

The confidential reserve price has an important, complimentary role to the auction price floor and a cost containment reserve already set in regulations. The confidential reserve price is designed to ensure the clearing price of NZ ETS auctions reflects prevailing secondary market prices and to prevent the sale of units significantly below this price. Without a confidential reserve price, there is risk that units could be auctioned above the price floor but significantly below the secondary market price. In turn, this could have a destabilising effect on the secondary market and risks a fiscal cost to the Crown if units are sold for less than the prevailing price.

The Bill enables the setting of a confidential reserve price relative to the secondary market price of New Zealand units (NZUs) before each auction using a prescribed methodology set by the Minister of Climate Change. When setting the methodology the Minister must take into account specified criteria. The methodology itself is kept confidential, so as not to become the target of bidding behaviour. The methodology needs to be set in consultation with the Minister of Finance and the auction monitor, when appointed, and will then be shared with the auction operator to apply.

As a result of consideration at Select Committee the Bill has been amended to improve accountability in several ways. The previous requirement to consider the purpose of confidential prices when setting the methodology has now been strengthened such that the Minister must ensure the methodology achieves the purpose of confidential reserve prices. Furthermore, the Minister is required to consult with the independent auction monitor (when appointed) in addition to the Minister of Finance when setting the confidential methodology. Finally, if the final clearing price is less than the confidential reserve price and no units are sold then the Minister is required to review the methodology to determine if it is still fit for purpose.