



Cabinet Environment, Energy and Climate Committee

Minute of Decision

McGuinness Institute title:
[ENV-20-MIN-0016] New
Zealand Emissions Trading
Scheme: Settings Regulations

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New Zealand Emissions Trading Scheme: Settings Regulations

Portfolio Climate Change

On 14 May 2020, the Cabinet Environment, Energy and Climate Committee:

Background

- 1 **noted** the proposals, in the paper attached under ENV-20-SUB-0016, to set regulations under the Climate Change Response Act 2002 as amended by the Climate Change Response (Emissions Trading Reform) Amendment Bill to provide New Zealand Emissions Trading Scheme (NZ ETS) settings;
- 2 **noted** that proposals for NZ ETS settings will support the effective operation of the NZ ETS;
- 3 **noted** that regulations for NZ ETS settings must be in place by the end of 2020 to ensure that auctioning can begin in 2021;
- 4 **noted** that choices made within the NZ ETS settings are not just important for our domestic transition, but are also crucial for our ability to meet New Zealand's international climate change targets;
- 5 **noted** that it is important to continue with work on the NZ ETS settings regulations through the COVID-19 situation so that the government can help support the right type of economic recovery that keeps it on track to meet New Zealand's long-term emissions reductions targets;

The provisional emissions budget

- 6 **noted** that setting the provisional emissions budget is important as it determines the total volume the government aims to limit New Zealand's net emissions to over the period 2021-25;
- 7 **noted** that the Climate Change Commission will recommend future emissions budgets in 2021, for 2022-2025, 2026-2030, and 2031-2035, which will supersede the provisional emissions budget when adopted by the government;
- 8 **agreed**, for the purpose of setting unit supply and price control regulations, the provisional emissions budget is 354 Mt CO₂-e for 2021-25;

Proposals for unit supply regulations

- 9 **noted** that emissions projections for sectors that are not currently required to surrender units within the NZ ETS have been updated and are 194 Mt CO₂-e;
- 10 **agreed** to draft regulations that set:
- 10.1 the limit on overseas units used to be zero for 2021, 2022, 2023, 2024, and 2025;
 - 10.2 the annual limits on New Zealand Units (NZU) available by other means to be: 8.4 million in 2021, 8.2 million in 2022, 8.9 million in 2023, 8.7 million in 2024 and 8.7 million in 2025;
 - 10.3 the annual limits on NZUs available by auction to be 19 million in 2021, 19 million in 2022, 19 million in 2023, 17 million in 2024, and 16 million in 2025;
- 11 **agreed** to draft regulations that set the annual overall limits on NZ ETS unit supply to be: 32.8 million NZUs in 2021, 32.9 million NZUs in 2022, 32.9 million NZUs in 2023, 31.3 million NZUs in 2024 and 29.6 million NZUs in 2025;

Proposals for auction price control regulations

- 12 **noted** that price controls are mechanisms that help manage unacceptably low or high prices in the NZ ETS and limit the risk of prices falling outside of a range needed to meet an emissions budget;
- 13 **agreed** to draft regulations for:
- 13.1 a reserve price at auction of \$20.00 for 2021, \$20.40 for 2022, \$20.81 for 2023, \$21.22 for 2024, \$21.65 for 2025; and
 - 13.2 a cost containment reserve trigger price of \$50 for 2021, \$51.00 in 2022, \$52.02 in 2023, \$53.06 in 2024 and \$54.12 in 2025;
- 14 **noted** that although the price ceiling is the upper extreme of expected and acceptable prices in the NZ ETS, it will not be the key driver for the market price, which will be ultimately determined by unit supply and demand;
- 15 **noted** that since the consultation, Ministry for the Environment (MfE) officials have proposed an update to the methodology of setting the cost containment reserve volume;
- 16 **agreed** to draft regulations for the volume of NZUs available annually within the cost containment reserve to be 7 million in 2021, 7 million in 2022, 7 million in 2023, 7 million in 2024, and 6.9 million in 2025;

Regulations for auctions to sell NZUs

- 17 **agreed** auctions of New Zealand units will be held quarterly;
- 18 **agreed** to draft regulations that set 17 March 2021 as the day on which the sale of New Zealand units by auction commences;
- 19 **agreed** to draft regulations that set 23 June, 1 September and 1 December as the remaining dates for the quarterly auctioning schedule for 2021;

Sensitivity

- 20 **noted** that the proposals in the paper under ENV-20-SUB-0016 and the attached appendices are commercially sensitive and the release of this information will have implications for the NZ ETS market;
- 21 **noted** that considerations around public release of information need to be managed carefully;

Next steps

- 22 **invited** the Minister for Climate Change to issue drafting instructions for new regulations to the Parliamentary Counsel Office based on the agreed decisions presented in the paper attached under ENV-20-SUB-0016;
- 23 **noted** that subject to the enactment of the Bill and following drafting by the Parliamentary Counsel Office, both NZ ETS settings and auctioning regulations will be presented to the Cabinet Legislation Committee for approval later in 2020.

Vivien Meek
Committee Secretary

Present:

Rt Hon Winston Peters
Hon Phil Twyford
Hon David Parker (Chair)
Hon Stuart Nash
Hon Damien O'Connor
Hon Shane Jones
Hon James Shaw,
Hon Eugenie Sage

Officials present from:

Office of the Prime Minister
Officials Committee for ENV