

The webinar will begin at 2pm

New Zealand Emissions Trading Scheme regulatory updates 2024:

- Annual updates to NZ ETS limits and price control settings for units (30 minutes, 2:00 – 2:30pm)
- Short break (5 minutes, 2:30 – 2:35pm)
- Other proposed changes to NZ ETS regulations (25 minutes, 2:35 – 3:00pm)

New Zealand Emissions Trading Scheme: Unit settings and other regulatory updates 2024

Ministry for the Environment – Consultation Webinar

consult.environment.govt.nz/climate/nz-ets-unit-settings-and-regulatory-updates-2024

New Zealand Emissions Trading Scheme regulatory updates 2024

Introductions and Webinar process



Webinar overview:

1. Welcome and introduction
2. Annual updates to NZ ETS limits and price control settings for units (20 mins)
3. Pātai | Questions (10 mins)
4. 5-minute break. **Resuming at 2:35pm**
5. Other proposed changes to NZ ETS regulations (15 mins):
 - Geothermal
 - Natural Gas
 - Liquid Fossil Fuels
 - Waste
 - Synthetic Greenhouse Gases
 - Other Auctioning & Operational Updates
6. Pātai | Questions (10 mins)

Updating NZ ETS limits and price control settings for units

The key requirement is that unit limits and price control settings accord with New Zealand's emissions budgets, the nationally determined contribution under the Paris Agreement, and the 2050 target

This includes:

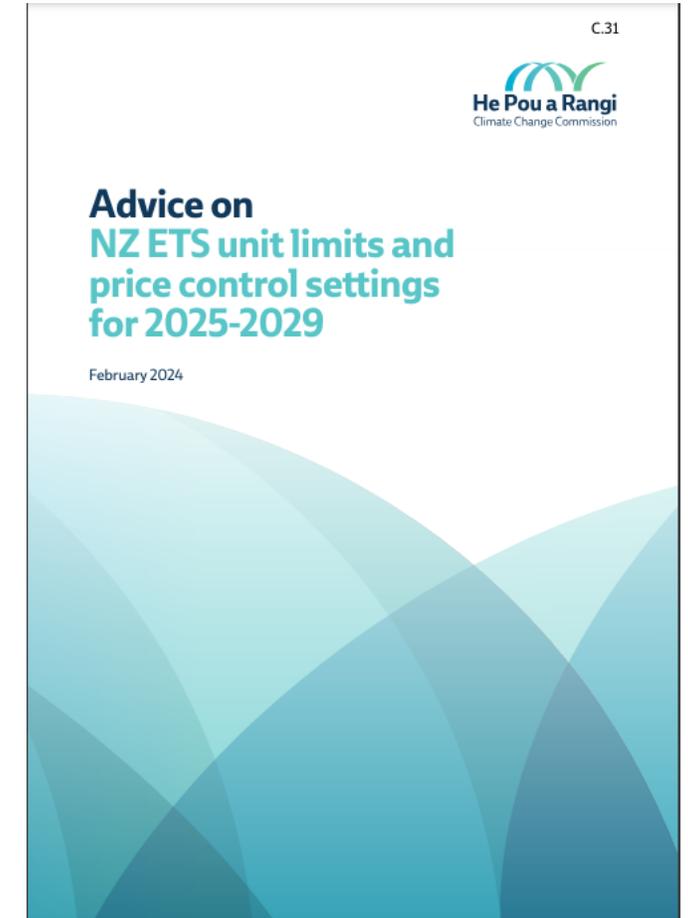
- A limit on the NZUs available by auction
- A limit on approved overseas units
- An overall limit on units (often referred to as the NZ ETS cap)

Price control settings:

- A minimum price that units can be sold for at auction (price floor)
- A cost containment reserve (CCR) trigger price
- A CCR unit volume

The Climate Change Commission has provided advice on NZ ETS unit settings

- The Commission must give advice on NZ ETS unit settings
- The Minister of Climate Change must consider Commission's advice when updating NZ ETS unit settings
- The Commission's advice is available on its [website](#)



Unit limits – Methodology

1

Aligning the climate change targets

2

Allocate the emissions budgets to NZ ETS and non-NZ ETS sectors

3

Make technical adjustments

4

Account for industrial allocation volumes

5

Set the reduction volume to address unit surplus

6

Set the approved overseas unit limit

7

Calculate the base auction volume

Step 1 – Aligning the NZ ETS with climate change targets (page 14 of the consultation document)

- The first step sets out how unit limits should align with emissions budgets, the NDC, and the 2050 target
- There are three options for this step, presenting a range of how well this step can help NZ ETS accord emissions budgets and targets:
 - **Option 1:** Status quo
 - **Option 2:** Minimum adjustment
 - **Option 3:** Further adjustment to manage the impact of non-NZ ETS policies

- We are interested in your views in these options, including which one is your preferred option.
- If you prefer option three, what criteria should be used to identify eligible emissions reductions and removals?

Step 2 – Allocate emissions budgets to NZ ETS sectors (page 17 of the consultation document)

- Emissions and removals outside the NZ ETS account for a large portion of emissions budgets. This is largely agriculture and some forestry.
- Current approach reflects sector sub-targets in the first emissions reduction plan. This means if emissions outside the NZ ETS are higher than that target level, the effort required by NZ ETS sectors does not change.
- Emissions projections from agriculture are currently above this pathway due to methodological and policy changes. This could create risks for the achievement of emissions budgets.

➤ We are interested in your feedback on how the emissions budget is allocated, including the current approach and whether an alternative should be considered.

Step 5 – Set the reduction volume to address the unit surplus

- There is a significant number of NZUs held in private accounts, a large portion of which are units that are not for future liabilities and are considered ‘surplus’.
- The surplus NZUs pose a risk to the achievement of emissions budgets because if they come to market there would be less incentive to reduce emissions
- The Commission has increased its central surplus estimate to 68 mil NZUs. The Commission considered that the surplus has increased due to:
 - the increase of approximately 11 million ‘low risk’ units held by post-1989 forestry participants
 - pre-1990 forest allocation units being on-sold by their original recipients at a faster rate than previously estimated (approximately 7 million additional surplus units)

- Do you agree with the Commission’s surplus methodology and estimate? If not, why not?
- We are interested in your views on the Commission’s interpretation of increased transfers of pre-1990 units. Do you think the sale of pre-1990 units have increased? If so, what factors are influencing this?

Step 5 (cont.) – Options

- We have considered three options, including the Commission’s recommendation:
 - **Option 1:** No change to surplus reductions despite the updated surplus estimate. This option does not include the change to the surplus estimate. The projected value estimated in 2023 would be used for 2029
 - **Option 2:** Update surplus reductions for 2027–28 for the new surplus estimate and a projection to 2029
 - **Option 3:** Update surplus reductions for 2025–28 to reflect the new surplus estimate (the Commission’s recommendation). The surplus reductions would be distributed evenly between 2025–29 unlike option 2
- We have not included an option to extend the timeframe to reduce the surplus to zero beyond 2030. This is because it would decrease the alignment of NZ ETS settings with the second and third emissions budgets and the NDC

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

Updating the first 2 years of unit settings

- The Climate Change Response Act mandates that the first two years of settings (i.e. 2025–26 for this year) can only be updated in specific circumstances
- The Commission recommended updating the first two years
- The new surplus estimate means status quo settings are potentially misaligned with emissions budgets and targets

➤ We seek your feedback on whether the thresholds have been met for option 3 to be considered.

Step 7 – Base auction volume options

Auction volumes	Year (millions of NZUs)				
	2025	2026	2027	2028	2029
Currently prescribed auction volumes	12.6	10.7	9.2	6.9	N/A
Commission's recommended NZU auction volumes	5.9	5.0	4.9	3.9	3.0
Percentage change (%)	-53%	-53%	-47%	-43%	N/A

Price Control Settings

The auction price floor

- the minimum price below which units must not be sold by auction. Bids at auctions must be at or above this prescribed price floor.

The cost containment reserve (CCR)

- Provides an additional number of units at auction when the clearing price is above the trigger price
- The CCR aims to mitigate NZU prices that are unacceptably high by increasing the supply of units available to the market

Approach and options to price control settings

(page 27 of the consultation document)

- The auction price floor and CCR are considered together as a corridor for the purposes of consultation
- We have considered two options for the price corridor:
 - **Option 1:** An extension to the status quo – this is the Commission’s recommendation
 - **Option 2:** lower the price corridor trigger prices
- The price controls can be changed independently (just the floor or the ceiling)

- 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?
- Do you consider a price corridor (i.e. an auction floor price and a CCR), to be important? Why or why not?

Cost Containment Reserve volume options

- We have presented two options in the consultation document:
 - **Option 1:** Status quo: maintain the current CCR volume (Commission's recommendation)
 - **Option 2:** Increase CCR volume to reflect surplus reduction (step 5 of unit limits)
- Under option 2, only the tier 2 volume would increase. The tier 1 volume would remain the same as it is based on an estimate of the average demand gap between the NZ ETS cap and forecast emissions for sectors covered by the NZ ETS

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



Pātai | Questions?

The webinar will resume at 2:35pm

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Other proposed changes to NZ ETS regulations

This includes:

Sector specific updates to...

- Geothermal
- Natural Gas
- Liquid Fossil Fuels
- Waste
- Synthetic Greenhouse Gases

Auctioning & operational updates to...

- Qualified persons definition
- Auctioning collateral methodology

Why are other changes needed to NZ ETS regulations?



- Data, science, and sector contexts change, and the NZ ETS needs to accurately reflect up-to-date information.
- Emergent activities and new applicants for activities are identified, and need to be accounted for within the scheme.
- Previous errors or ambiguities may be identified, possibly where they weren't wrong in the past until something else changed, and need to be clarified.
- Agencies connected with the NZ ETS, as well as participants and other stakeholders, often provide suggestions and feedback on how the system could work to support their interactions with it.

General Consultation Questions:

- Do you have any feedback or suggestions on the process by which the Government routinely updates the regulations that govern the NZ ETS?
- Are there any improvements, corrections, or clarifications to the NZ ETS regulations, along the lines of those proposed in this document, that you think the Government should add to the update process in future years?

Sector-specific Updates

Geothermal Updates (1)

Default Emissions Factor (DEF) value updates

- The Climate Change (Stationary Energy and Industrial Processes) Regulations 2009 list DEFs for each geothermal participant in the NZ ETS.
- Geothermal participants can use these values to calculate their emissions when reporting to the EPA (Environmental Protection Authority).
- These are out of date, as the chemical composition of geothermal fluid changes over time, and so do participants' practices and technologies.
- New values based on recent data from participants are proposed in the consultation document.

Consultation Question(s):

- Do you have any feedback or relevant evidence about the proposed DEF values for directly updating the SEIP Regulations for geothermal activities?



Impacts on Participants

NZ ETS Obligation:

may decrease or increase depending on the participant



Other Costs:

may decrease for some participants, if they choose to report using a DEF instead of UEF



Consultation document ref.

Proposed regulatory update 1

pages 14–20

Geothermal Updates Cont. (2)

Unique Emissions Factor (UEF) methodological updates

- The Climate Change (Unique Emissions Factors) Regulations 2009 describe the data and methodologies needed for participants to use a UEF to report their emissions.
- UEFs allow participants to seek a custom, potentially more accurate emissions factor to reflect their emissions, compared to a DEF.
- With growing use of ‘re injection’ technology (which can return greenhouse gases into the geothermal reservoir), new methodologies could support more accurate UEFs.
- The consultation document describes three methods proposed for inclusion: ‘mass-balance measurement’ and ‘direct gas flow measurement,’ as well as a streamlined approach if 100% reinjection occurs.

Consultation Question(s):

- Do you have any feedback or relevant evidence about the proposed UEF methodology additions for directly updating the UEF Regulations for geothermal activities?



Impacts on Participants

NZ ETS Obligation:

may decrease or increase depending on the participant



Other Costs:

may decrease for participants who can gather data for UEFs more easily, but overall likely to be no change



Consultation document ref.

Proposed regulatory update 1

pages 14–20

Geothermal Updates Cont. (3)

Or we could improve the overall regulatory approach...

- The current regulations allow either DEFs or UEFs to be used. While this is not unusual, most participants use UEFs, because DEFs quickly become out of date and don't fully capture the reinjection occurring that reduces emissions.
- Instead of directly updating the regulations as they are, we could streamline the structure. We have proposed two potential options for this:
 1. Instead of using DEFs and UEFs, we could use the kind of data that is currently gathered for regulatory update as part of annual reporting, and calculate emissions directly.
 2. Or, we could link the DEF and UEF processes, by averaging recent UEFs to become the new DEFs. This means that, if 100% reinjection continues to occur, participants won't need to reapply for a UEF every year.

Consultation Question(s):

- In your view, for geothermal activities within the NZ ETS, is it better to directly update the existing regulatory structure or take a new approach? Why?



Impacts on Participants

NZ ETS Obligation:

may decrease or increase depending on the participant



Other Costs:

may initially increase where practices and technologies need updating, but expected to be lower over time



Consultation document ref.

Proposed regulatory update 1

pages 14–20

Natural Gas Updates

- If natural gas is purchased from a mandatory participant (gas miner), the purchaser may opt-in and become a voluntary participant in the NZ ETS. This means that they pay for the emissions, rather than have the cost passed on from the gas miner.
- DEFs are listed in the Climate Change (Stationary Energy and Industrial Processes) Regulations 2009 based on data reported by gas miners. This allows voluntary participants to report their emissions without having to request this data from the gas miner.
- These have not been updated for several years, so the voluntary participants have to either accept the old DEFs or take on the cost of acquiring more recent data.
- No specific values are proposed in the consultation document, as these are calculated using this year's emissions reporting, which is not yet available.

Consultation Question(s):

- Do you have any feedback or relevant evidence about the proposed update to DEFs for natural gas fields in the SEIP Regulations?
- Do you support continuing to retain and regularly update the DEFs for natural gas fields? How might we improve this process?



Impacts on Participants

NZ ETS Obligation:

no change expected,
as participants
would need to
acquire this data
regardless

Other Costs:

may decrease, as
they can report
without needing to
request data from
gas miners



Consultation document ref.

*Proposed regulatory
update 2*

pages 21–25

Liquid Fossil Fuels Updates

- Unlike geothermal and natural gas, liquid fossil fuel (LFF) DEFs are listed in the Climate Change (Liquid Fossil Fuels) Regulations 2008 by fuel type not participant. They represent average chemical composition across each fuel type.
- There is a regular process for reviewing these DEFs, which often results in no change or changes only from updates to international climate science.
- However, Refining NZ recently closed their Marsden Point Oil Refinery. This was the only source of fuel refined domestically, so now all LFF in New Zealand is imported.
- This changes the average chemical composition across most fuels, as well as the overall context of the sector.
- New values are proposed in the consultation document based on recent data updates for our national Greenhouse Gas Inventory.

Consultation Question(s):

- Do you have any feedback or relevant evidence about the proposed update to DEFs for liquid fossil fuels in the LFF Regulations?
- Do you support continuing to regularly review and, where needed, update the DEFs for liquid fossil fuels? How might we improve this process?



Impacts on Participants

NZ ETS Obligation:

may decrease or increase depending on the participant



Other Costs:

no change expected, as how emissions are reported stays the same



Consultation document ref.

Proposed regulatory update 3

pages 23–25

Waste Updates (1)

Aligning values in DEF and UEF regulations

- The Climate Change (Unique Emissions Factors) Regulations 2009 duplicate the DEF values listed in the Climate Change (Waste) Regulations 2010 as part of the calculation for waste UEFs.
- When the waste regulations were last updated, this wasn't carried through into the UEF regulations.
- The update proposed in the consultation document is intended to fix this error, to ensure that the two sets of regulations align.

Consultation Question(s):

- Do you support updating the waste DEF used to calculate UEFs?



Impacts on Participants

NZ ETS Obligation:
unless offset by a
change in
emissions, may
slightly increase



Other Costs:
may increase as a
one-off, as a change
in UEF requires
participants to
reapply for their UEF



Consultation document ref.

*Proposed regulatory
update 4*

pages 26–30

Waste Updates Cont. (2)

Clarifying data used to calculate UEFs for waste participants

- Participants who apply for a UEF for waste activities under the Climate Change (Unique Emissions Factors) Regulations 2009 must estimate their methane generation based on a “first order decay model” or other IPCC waste model.
- Where a participant doesn’t have compositional data specific to their site, a default composition value is used.
- Waste emissions occur over time, but composition changes, so emissions reporting should reflect the current emissions from old waste.
- The update proposed in the consultation document would give effect to the existing policy intent, by specifying historical composition values for given time periods, rather than a single value that does not reflect the change over time.

Consultation Question(s):

- Do you support using historical waste composition to inform the calculation of UEFs?



Impacts on Participants

Emissions Costs:

may decrease or increase depending on the participant



Compliance Costs:

may increase as a one-off, if it means a change in UEF, which requires participants to reapply for their UEF



Consultation document ref.

Proposed regulatory update 4

pages 26–30

Waste Updates Cont. (3)

Offsite destruction of landfill gas

- The Climate Change (Unique Emissions Factors) Regulations 2009 currently require landfill gas to be destroyed at the same site as the landfill to be recognised in a waste UEF.
- We understand that there is interest from participants in being able to destroy landfill gas offsite. As this makes no difference to the volume of emissions, there is no reason for the regulations to create a barrier to offsite destruction.
- The change proposed in the consultation increases flexibility for participants, by allowing landfill gas destroyed both onsite and offsite to be valid in a UEF application.

Consultation Question(s):

- Do you support allowing landfill gas to be destroyed offsite, potentially by a third party? Are you currently working with a third party to destroy landfill gas offsite?



Impacts on Participants

NZ ETS Obligation:

may decrease for participants if this enables more gas to be destroyed



Other Costs:

should not result in any change in costs if activities are otherwise unchanged



Consultation document ref.

Proposed regulatory update 4

pages 26–30

Synthetic Greenhouse Gas Updates

- Synthetic greenhouse gases can be destroyed, and therefore removed from circulation and avoiding possible emission to the atmosphere. This can be recognised and rewarded with NZUs under the Climate Change (Other Removal Activities) Regulations 2009.
- The regulations are clear in the context of exporting these gases, for destruction offshore, as a removal activity. They are less clear about destruction occurring onshore.
- This primarily comes from a date criterion intended to apply to only one gas in (sulphur hexafluoride) that has a particularly high global warming potential, which may have resulted in arbitrage when the regulations were first implemented.
- We propose that the text of the regulations should be clarified to provide certainty for domestically destroyed synthetic greenhouse gases, especially where this date criterion causes ambiguity.

Consultation Question(s):

- Do you have any feedback or relevant evidence about the proposal to clarify the ORA Regulations to allow for the onshore destruction of synthetic greenhouse gases?



Impacts on Participants

NZ ETS Obligation:

no increase to removal reward value, but increases certainty about receiving this



Other Costs:

no change expected, but certainty supports planning for compliance and investments



Consultation document ref.

Proposed regulatory update 5

pages 31–33

Auctioning & Operational Updates

Register Definitions Updates

- The Climate Change (Unit Register) Regulations 2008 define who can be qualified to manage NZU holding accounts under the NZ ETS Register.
- Specific individuals are defined as unsuitable (for example, based on certain conditions around age, bankruptcy, and similar). However, if someone is a mandatory participant, they need to be qualified to manage an NZU holding account even if they would otherwise be unsuitable.
- We are proposing to clarify how the definition of a qualified person and the clause that describes who can manage NZU holding accounts are structured and cross-referenced, to ensure that only suitable individuals can manage NZU holding accounts, avoiding risk to the integrity of the Register.
- We have also noted that the terminology around the 'Register' in these clauses is not consistent, and the regulations could be clearer by using the same terms throughout.

Consultation Question(s):

- Do you have any feedback or relevant evidence about the proposed update to the 'qualified person' definition in the Unit Register Regulations?



Impacts on Participants

NZ ETS Obligation:

no change expected,
should not affect any
emissions reporting
or obligations

Other Costs:

no change expected,
should not affect any
emissions reporting
or compliance

Consultation document ref.

*Proposed regulatory
update 6*

pages 35–36

Auction Collateral Updates

- Market participants who take part in the government-run auctions for NZUs must provide collateral ahead of bidding, based on the volumes/values of units for which they are bidding.
- The current methodology for calculating collateral potentially results in bidders paying more than could be considered necessary, especially as they do not always pay the value for units at which they initially bid if the clearing price of the auction is lower.
- The consultation document proposes an alternative calculation that is intended to align the collateral paid more closely with the potential total value of units successfully bid on.

Consultation Question(s):

- Do you agree that the methodology of calculating auctioning collateral needs to be updated?
- Are there any options for calculating auctioning collateral that we haven't considered, which you would prefer? Please explain.



Expected Impacts

NZ ETS Obligation:

no change expected, should not affect any emissions reporting or obligations



Other Costs:

may decrease if participant pays more collateral than necessary under current approach



Consultation document ref.

Proposed regulatory update 7

pages X–X



Pātai | Questions?

How to provide a submission and next steps

The full consultation documents can be found on our website at:

consult.environment.govt.nz/climate/nz-ets-unit-settings-and-regulatory-updates-2024

Consultation submissions close at 5:00 pm on 14 June 2024. You can provide your feedback through the following three channels:

- Complete your submission on Citizen Space, which is found at the link above
- Email your submission to etsconsultation@mfe.govt.nz
- Post your submission to: Ministry for the Environment, PO Box 10362, Wellington 6143

We are eager to hear from organisations and individuals on what they think about the proposals.

Karakia

Kia whakairia te tapu

Kia wātea ai te ara

Kia turuki whakataha ai

Kia turuki whakataha ai

Haumi e

Hui e

Tāiki e!

Restrictions are moved aside

So the pathway is clear

To return to every-day activities



Ministry for the
Environment
Manatū Mō Te Taiao

consult.environment.govt.nz/climate/nz-ets-unit-settings-and-regulatory-updates-2024