

Key themes from the early engagement workshop on design of NZ ETS auctioning operational rules (28 May 2019)

Workshop purpose: Provide an update on initial thinking for auctioning operational design choices, identify gaps in officials' analysis, and hear initial thoughts. The objective was to seek feedback and discussion on the merits of the options, rather than to seek a consensus on 'preferred' options.

Format: Officials presented operational design choices for pre-bidding, bidding, and post-bidding stages of auctioning, with group discussions throughout.

Next steps: Discussions from the workshop will be used to refine policy thinking ahead of public consultation, expected later this year.

Key themes: The group expressed wide and varied views, with some participants noting that the NZU secondary market is well operated, and largely a successful model for Government auctioning to borrow from. Others emphasised that, regardless of the well-functioning operation of the secondary market, auctioning should have more oversight (e.g. collateral requirements) to ensure risks are anticipated and mitigated.

Key themes from pre-bidding session:

- The process for approving new auction participants needs to be separated from the process of registering to participate in a particular auction round. The ownership of companies can be complicated (especially for some types of trusts and companies with overseas directors), so initial registration processes can be lengthy.
- There were mixed views on the need for collateral, with some workshop participants taking the view that the risk of default in payment can be minimised through pre-bidding processes, short settlement periods, and a 'payment before delivery' approach for settlement of NZUs.
- Options for types and value of collateral will depend on the Government's objective for auctioning, and the trade-off between encouraging wide participation and adequately protecting against default.

Key themes from bidding session:

- Bidding windows could potentially be longer (e.g. a week), but this would require greater monitoring.
- Larger minimum lot sizes could be included in the discussion document, depending on the purpose of the auction (trade-off between facilitating wide-participation and ensuring available volumes are efficiently sold).
- It is important to understand and explain the implications of bidding design choices for the secondary market.
- The purpose and operation of a "technical reserve price" needs to be clearly communicated, as this can be confusing.

Key themes from the post-bidding session:

- Auction results should to be published as soon as possible after an auction, and preferably when the secondary market is open (so the market can respond to the results).
- It is also vital that bidders are notified if they were successful as soon as possible.
- Release of market information should not include names or information that can identify bids or bidding strategy.
- Experience in the secondary market has shown that defaults in payment are very rare, but delays in processing are not-uncommon and should be accommodated.

Participants:

	Name	Organisation
Did not attend	Adams, Dominic	Ballance
	Ashmore, Ryan	Fletcher Building
Did not attend	Bell, Harvey	Federation of Māori Authorities
Did not attend	Belton, Ollie	Carbon Forest Services
	Brown, Kay	DairyNZ
	Brunel, Nigel	OMFinancial
	Came, Sharron	Mercury
	Carnegie, John	BusinessNZ
	Chambers, Lizzie	Carbon Match
	Clarke, Madison	Fonterra
	Dinnan, Shane	NZX
	Elder, Andrew	NZAS
Did not attend	Eyes, Alan	NZ Steel
	Frazer, Stuart	Lindstrom
	Iggulden, Jo	Vector
	Leining, Catherine	MOTU
	McCree, Julian	Genesis
	Milne, Craig	Westpac
	Norris, Richard	Z Energy

Officials:

Ministry for the Environment	Matthew Cowie, Manager, ETS Policy
	Kate Ryan, Senior Policy Analyst, ETS Policy
	Monique Page, Analyst, ETS Policy
	Elizabeth Rine, Analyst, ETS Policy
Ministry for Primary Industries	Ivan Luketina, Senior Policy Analyst
Environment Protection Authority	Bronwyn Kropp, Policy Advisor
	Guy Windley, Team Leader Registry Operations