

19 December 2019

Vicky Robertson
Environment House
23 Kate Sheppard Place
Thorndon
WELLINGTON 6143

Sent via email: etsconsultation@mfe.govt.nz

Dear Vicky

Reforming the New Zealand Emissions Trading Scheme: Rules for auctioning

First Gas Group Limited (Firstgas) welcomes the opportunity to submit on the technical consultation document "*Reforming the New Zealand Emissions Trading Scheme: Rules for auctioning*", released in November 2019.

As a member of the Climate Leaders' Coalition, Firstgas has made a public commitment to a lower carbon future. We believe that a comprehensive emissions trading scheme (ETS) is a useful tool to encourage the behavioural changes needed to lower New Zealand's carbon emissions. Rockgas, our LPG business, is a significant ETS market participant.

Overall, we think the ETS market is efficient and does a good job at allocating credits properly. We have provided an overview of Firstgas in **Attachment 1** and we have responded to the consultation questions in **Attachment 2**.

Support for a separate reserve auction

Firstgas favours a separate reserve auction, with participation limited to parties with surrender obligations. However, as a trade-off we believe that units purchased should only be limited for use in meeting surrender obligations in that year. We accept that this would drive up the administration costs associated with running a secondary system. This strikes a balance between allowing business like ourselves to meet our obligations, but allows investment in the market.

Support for a weighted option for buying credits

Firstgas supports a "weighted" option for buying carbon credits because there is asymmetry in our demand for carbon credits. Traditionally, the secondary market is more active during the start of the calendar year as emitters calculate and source their unit requirements for surrender in May. Therefore, a weighted distribution option is preferred by increasing the unit volumes at times when participants are seeking units to meet their surrender obligations (rather than evenly allocating auction volumes throughout the year).

Contact details

If you have any questions regarding this submission, please contact me on 027 290 1861 or via email at William.Hancock@firstgas.co.nz.

Yours sincerely



William Hancock
Regulatory Analyst

APPENDIX 1: ABOUT THE FIRSTGAS GROUP

Firstgas owns and operates 2,500 kilometres of gas transmission pipelines and more than 4,800 kilometres of gas distribution pipelines. These pipelines transport around 20 percent of New Zealand's primary energy supply from Taranaki to industrial gas users, electricity generators, businesses and homes across the North Island. Our distribution network services approximately 63,000 consumers across Northland, Waikato, Central Plateau, Bay of Plenty, Gisborne and Kapiti.

The First Gas Group also owns energy infrastructure assets across New Zealand through our affiliate Gas Services NZ Limited (GSNZ), a separate business with common shareholders that owns the Rockgas and the Ahuroa gas storage facility. Rockgas has over 80 years' experience and provides LPG to 100,000 customers throughout New Zealand. It is New Zealand's largest LPG retail business and supplies its customers with both domestic and imported sources of LPG.

The Ahuroa gas storage facility (trading as Flexgas Limited) is New Zealand's only open access gas storage facility. It is a depleted gas field that has been re-purposed to store large amounts of energy for release when New Zealand energy users need it most (e.g. due to low hydro inflows or during periods of high demand). To provide a sense of scale, the Ahuroa facility has a similar storage capacity to all New Zealand's hydro lakes when they are all full (ca. 14 petajoules).

We consider that these two businesses provide an important source of energy diversity and flexibility for the New Zealand energy system. In particular, gas storage coupled with modern gas electricity generators will be critical for New Zealand energy security as we transition to a low emissions economy.

This infrastructure will also continue to play a critical role in the broader energy system for many years to come. There is growing international and local interest in hydrogen and biogas, and the future role that Firstgas could play in quickly and effectively transporting greener gases across the North Island through its existing gas networks. With co-funding from the Provincial Growth Fund, we are about to commence a study into the viability of hydrogen transport using Firstgas pipeline infrastructure.

APPENDIX 2: RESPONSES TO CONSULTATION QUESTIONS

Question	Response
1. Do you agree that auction volumes should be evenly distributed over the calendar year?	No.
2. If no, do you have a suggestion for how volumes should be weighted	To have an increased volume in the preceding months the surrender deadline (31 May). This option takes into account the trading variation over a year and increases the volume at times when participants may be seeking NZUs to meet their surrender obligations
3. What should be done with unsold units?	The unsold units should all be added to the next auction.
4. If unsold units are only added to subsequent auctions within a limit, what should it be?	No limit.
5. Other than public holidays, and days when important economic or emissions data is released, are there any dates when auctions should not be held?	The first five working days of the start of the month. This period will provide time for organisations to calculate the previous month/quarter obligations and include these volumes for upcoming auctions.
6. The surrender date in the NZ ETS is 31 May. How far in advance of this date should the closest auction be scheduled? Please consider both monthly and quarterly auction scenarios	Four weeks for both monthly and quarterly auction scenarios
7. Do you agree that the bidding window should be three hours, from 9am to 12 noon on the scheduled auction date?	No. Not every organisation will have personnel available to bid in the morning. Whereas, a full day bidding window will provide a longer opportunity for companies to submit their bids and will also provide the market with time to digest the auction results before the secondary market opens the following day
8. When a price trigger is reached in the cost containment reserve, how should the volume of units from the reserve be sold?	In a separate reserve action, limited to those with surrender obligations
9. If you support option 2, should the units sold in the reserve auction be limited for use to meet surrender obligations?	Yes.
10. Do you agree that the cost containment reserve should have a single price trigger for all the reserve volume?	Yes.
11. How far in advance should the auction notice be published?	30 calendar days.
12. Do you have any comments on the pre-registration process?	There should not need to be a submit "intention to bid" form, prior to each auction once pre-registration is complete. We feel this creates needless and excessive administration and costs that would not benefit the running of the market
13. Do you agree that an intention to bid form must be submitted a minimum of 28 calendar days in advance of an auction?	No. We do not believe an "intention to bid" form is necessary prior to each and every auction, once preregistration is complete."
14. Do you agree that bidders should have to provide collateral to participate in an auction?	No. It would add administration costs and time that would not help the market
15. If collateral is required how much should it be?	A flat rate payment of around \$50,000 - \$100,000 to allow for smaller participant into the auction.
16. What forms of collateral should be accepted?	Bank Guarantee, Irrevocable letter of credit

Question	Response
17. How many days before an auction do you think is sufficient lead time for provision of collateral (Government suggests 5 business days)?	Five business days.
18. Do you agree that collateral (depending on its form) should be used against payments for successful bids, if the bidder requests?	No.
19. Do you agree that bidders should be able to choose to have their collateral automatically returned, released at their request, or retained for future auctions?	Yes.
20. What should be the minimum number of NZUs that can be sold at auctions?	500 New Zealand Units (NZUs).
21. Bids are only accepted in multiples of minimum lot size. What should the minimum lot size be for auctions?	100 NZUs.
22. What should the minimum price increment be?	\$0.01 – \$0.02.
23. Do you think a maximum bid limit should be set?	Yes.
24. If set, should the maximum bid limit apply to?	All bids made by related participants.
25. If there is a maximum bid limit, what should it be?	100,000 NZUs for monthly auctions or 250,000 NZUs for quarterly auctions
26. How do you think tied bids should be resolved?	On a pro-rata basis, with rounding.
27. Do you agree that a technical reserve price should be set for auctions?	No.
28. If a technical reserve price is set, do you agree that the methodology for calculating the price be kept confidential?	No.
29. What results should the auction operator publish as soon as practicable following an auction?	<ul style="list-style-type: none"> • Clearing price • Total volume of units auctioned • Cover ratio • Number of unsold units
30. What is the best approach for settlement of successful bids?	<ul style="list-style-type: none"> • Payment before delivery
31. Do you have a view on the time for settlement (suggested it may take 4 business days)?	As soon as possible.
32. What information should the auction monitor report include?	<ul style="list-style-type: none"> • Detailed Volume Statistics • Detailed Stats on Number of Bids • Relevant Aggregate information • Relevant distributional information • Information to resolve tied bids • Information of successful bids with and without mandatory compliance obligations
33. Do you think that releasing information on the number of NZUs won by each successful bidder, who will not be named, would raise any issues of data confidentiality?	No, if the bidder's name is not released.
34. Does auction monitor reporting raise any concerns for you with respect to commercially sensitive information.	No.
35. How often do you think the auction monitor should review the auctioning system?	After one year initially, then every two years thereafter.