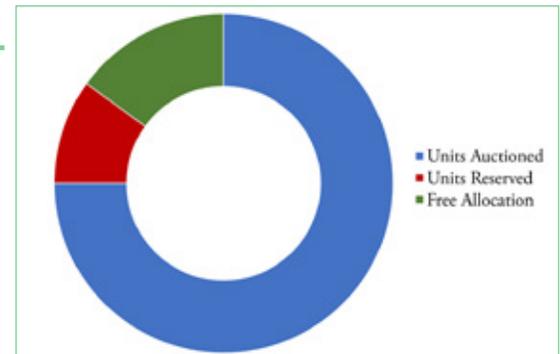


# AN EFFECTIVE NZ ETS: CLEAR PRICE SIGNALS TO GUIDE LOW-EMISSION INVESTMENT

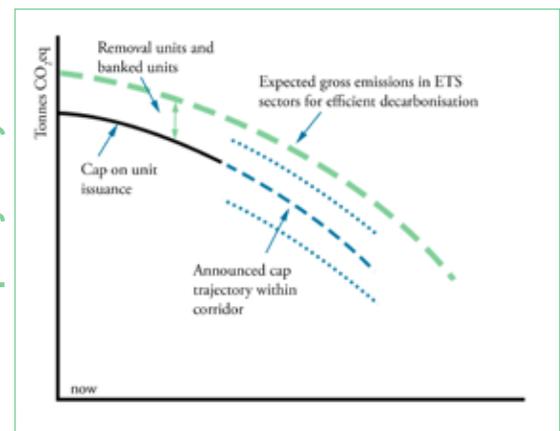
An overview of Kerr, Leining, Silver et al 2017

What we need	The solution
Certainty on near-term unit supply = <b>Cap</b>	<ul style="list-style-type: none"> <li>Establishes unit supply for auctioning and free allocation</li> <li>Includes a <b>Unit Reserve</b> for price management</li> <li>Aligned with international targets and domestic goals</li> <li>Set for 5 years in advance, extended 1 year each year</li> </ul>
Safeguard against near-term price risk = <b>Price Band</b>	<ul style="list-style-type: none"> <li>Constrains price volatility and enables smooth price transitions</li> <li>A <b>Price Floor</b> guarantees a minimum return on low-emission investment and a <b>Price Ceiling</b> limits upside price risk</li> <li>Implemented at auction via the Unit Reserve which is bound by the Cap</li> <li>Set with regard to international emission prices</li> <li>Set for 5 years in advance, extended 1 year each year</li> </ul>
Long-term price signals = <b>Trajectories</b>	<ul style="list-style-type: none"> <li>Define an indicative corridor for future Caps and Price Bands</li> <li>Set for a further 10 years, extended 1 year each year</li> </ul>
Independent review and advice = <b>Independent Body</b>	<ul style="list-style-type: none"> <li>Reviews ETS supply and price settings and provides expert advice to government</li> <li>Conducts reviews when triggered by passing a price threshold at auction or <i>force majeure</i> events</li> </ul>
Effective contribution to international emission reductions = <b>Managed Access</b>	<ul style="list-style-type: none"> <li>Provides quality assurance</li> <li><b>Government-led purchasing</b> (the only option at present) is factored into setting the Cap</li> <li>Any future <b>participant-led purchasing</b> is limited and displaces other supply under the Cap</li> </ul>

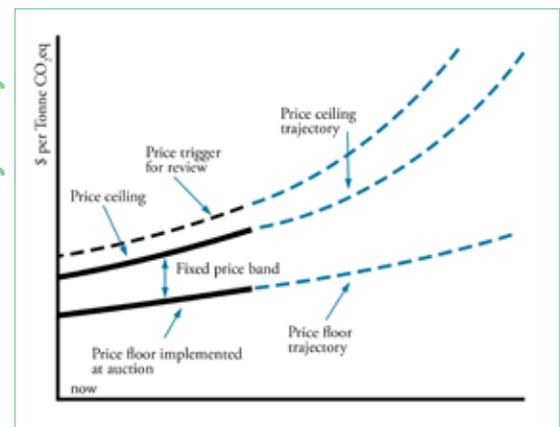
Model for an ETS Cap



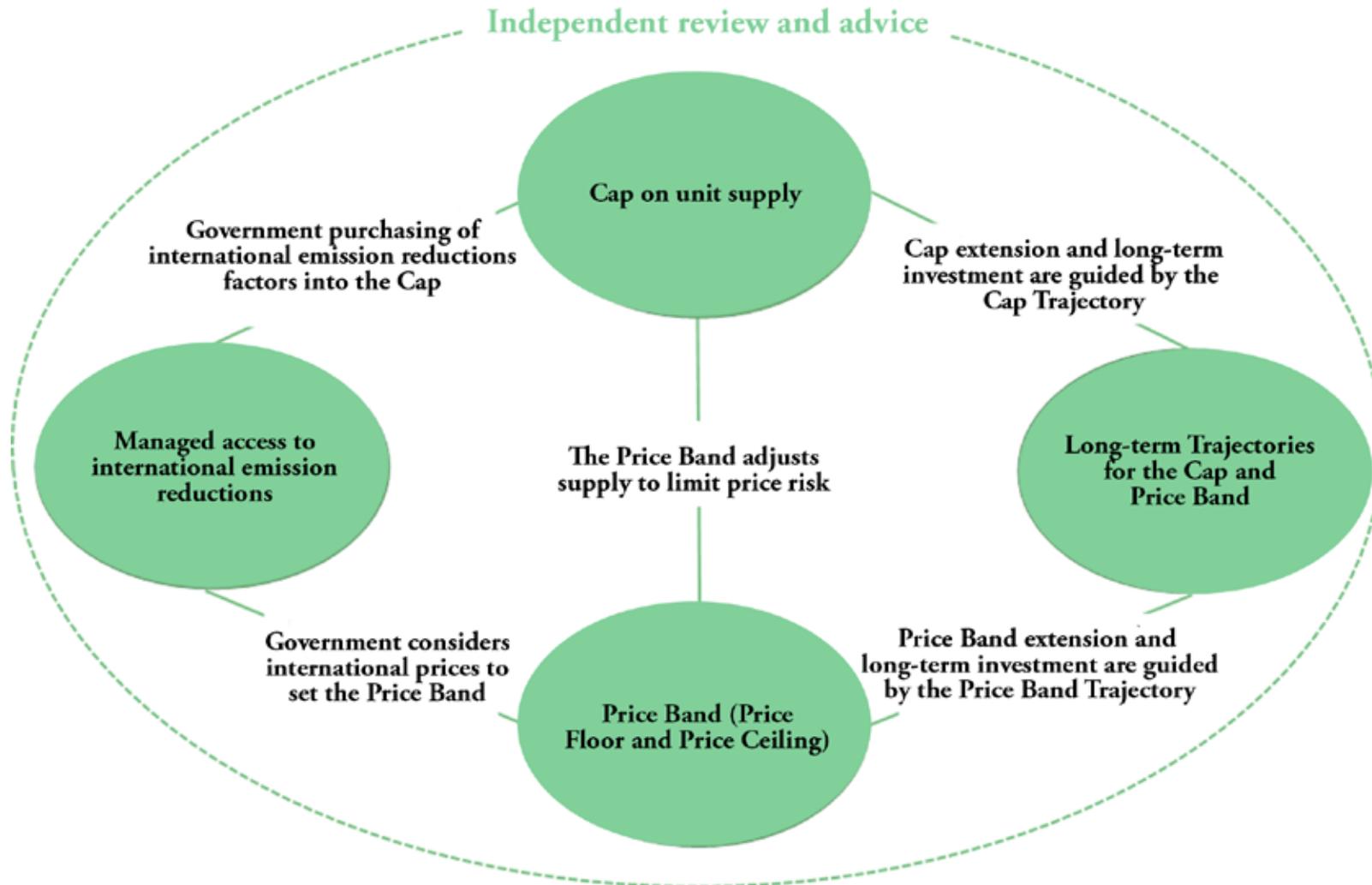
Cap Trajectory



Price Band Trajectory



The Paris Agreement has established a new context for global mitigation efforts and carbon markets that necessitates changes to the operation of the NZ ETS. Driving efficient low-emission investment in New Zealand requires a credible, stable and predictable long-term emission price signal which is aligned with our domestic mitigation ambition. This proposal presents an integrated package of adjustments to the design of the NZ ETS which can be implemented in the near term to deliver on that requirement. The five core components of the proposal operate in concert to make the NZ ETS a more powerful tool for managing the pace of domestic decarbonisation while reducing risk and uncertainty for low-emission investors, emitters and government.



This proposal emerged from the work of Motu’s ETS Dialogue and is detailed in an accompanying note. The work was conducted under Motu’s programme “Shaping New Zealand’s Low-Emission Future” with funding support from the Aotearoa Foundation. The inclusion of the ideas in this document does not imply any recommendation, consensus or endorsement by ETS Dialogue participants or presenters, their affiliated organisations or the programme funder. All opinions, errors and omissions are the authors’ own.